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GERMANY UNDER THE
DAWES PLAN

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*Origin, Legal Foundations, and Economic
Effects of the Reparation
Payments*

BY
MAX SERING, LL.D., DR. RER. POLIT., ETC.
PROFESSOR OF POLITICAL SCIENCE AT THE UNIVERSITY OF BERLIN

TRANSLATED BY
S. MILTON HART

LONDON
P. S. KING & SON, LTD.
ORCHARD HOUSE, WESTMINSTER
1929

PRINTED IN GREAT BRITAIN BY
RICHARD CLAY & SONS, LIMITED,
BUNGAY, SUFFOLK.

PREFACE

DURING recent months the Agent-General for Reparation Payments has repeatedly suggested that Germany's reparation liabilities be definitely fixed. The views held by Germany as to her capacity to pay differ widely from those held abroad ; nor is there any greater agreement as to the legal aspects of the question. In these circumstances, it appeared to me necessary that a careful inquiry should be made into the working of Germany's economy under the Dawes Plan, and that this inquiry should be made to cover the origin and the legal basis of that scheme.

The problem, in its various bearings, involves far more than merely German interests. With the conclusion of the London Agreement in the year 1924, there began a general recovery from the economic effects of the war. Indeed, not until that agreement came into operation did the war really cease, although the Armistice had been signed more than six years before. This "ten years' war" had impoverished Europe—especially Germany—and had sunk the temperate zone of the northern hemisphere into deeper and deeper distress, the crisis of which was reached during the Ruhr Occupation in 1923.

It was felt principally by the farmers, who, in selling to the inhabitants of the industrial centres, were forced to adapt their prices to the purchasing capacity of the marginal buyer. The capital received from the United States after the conclusion of the Dawes Agreement has increased that purchasing capacity, particularly in Germany ; it has stimulated international trade and, though much still remains to be done, it has improved the agricultural situation in all non-tropical countries.

The inter-relations and problems of agriculture and industry here touched upon I have dealt with more fully in a study¹ presented to the World Economic Conference in May, 1927, as well as in a speech delivered on that occasion and reprinted here as a supplement to the present volume. But at Geneva it was only possible to scratch the surface of the complex questions of political foreign debts. The crucial problem of Germany's economy and of international trade relations was left undiscussed at Geneva.

The purpose of the present work is to study the new conditions of existence in which Germany has been placed, to examine the movements of capital and commodities caused by the payment of tribute and to analyze their intense and mutually opposing influences upon economic and social evolution. From the conclusions thereby arrived at an attempt has been made to discover a basis for a just solution of the reparation problem upon which the concord and welfare of the nations so largely depend.

M. SERING.

Berlin-Dahlem,
August 28, 1928.

From the very first it was intended to publish an English translation of the present work. Unfortunately, illness on the part of the author delayed the publication. For the same reason, the translator has been requested to assume entire responsibility as regards the proof-sheets.

¹ A revised German edition has been published under the title of *Internationale Preisbewegung und Lage der Landwirtschaft in den ausser-tropischen Ländern*. Berlin, Paul Parey, 1929.

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PART I
HISTORICAL INTRODUCTION

CHAPTER I

THE PEACE OF VERSAILLES AND THE LEGAL FOUNDATIONS OF THE DAWES SCHEME

IN the Great War the Associated Powers pitted four-fifths of the entire population of the earth against the inhabitants of Central Europe. Consequently, these latter, coped up within the limited confines of their comparatively small countries, saw organized against them the economic and human forces of roughly four-fifths of the entire globe. After holding out for over four years they were compelled to succumb, yielding rather to the gnawings of hunger than to the pressure of physical preponderance; in so far as the decision was a military one, it was brought about by the advent of the fresh American troops just at the moment when exhaustion threatened both groups of belligerents.

On the 5th of October, 1918, the German Government requested the President of the United States to undertake the restoration of peace. The notes despatched on 8th October and 5th November, 1918, by Mr. Lansing, the American Secretary of State, bound the Allied and Associated Governments on the one hand, and Germany on the other, to accept the conditions laid down by President Wilson in his messages to Congress on January 8, 1918, and subsequent dates. The object of the discussions between the belligerent parties was to be only "to agree on the practical details" concerning the "application" of those already established conditions. As a result of these proceedings, Wilson's famous "Points" had come to be the subject-matter of a formal preliminary peace; that is to say, the belligerent parties had, by the acceptance of Wilson's "Points," concluded a treaty which, by

covering the whole range of the peace conditions, precluded any fresh demands and could be modified only as regarded its form and not as regarded its matter. Compensations or indemnities bearing the character of penalties were expressly precluded (Wilson's message to Congress on 11th February, 1918). Nevertheless, Points 7, 8 and 11 of Wilson's programme required the occupied districts of Belgium, France, Roumania, Serbia and Montenegro to be evacuated and restored. In Lansing's note of November 5th, the obligation concerning this rehabilitation of the occupied territories was defined on behalf of the Associated Powers¹ as being "compensation" by Germany "for all damage done to the civilian population of the Allies and their property by the aggression of Germany by land, by sea and from the air."

These and all similar arrangements agreed to were blown to the winds by the leading statesmen of Great Britain and France as soon as, in pursuance of the Armistice, revolutionary Germany, trusting implicitly to Wilson's promises, disbanded her army—an army which still commanded such respect that even the enemy had not dared to demand its dissolution.² The pacifistic veil was now dropped and the true war goal was disclosed. In every victor State "a sudden and cynical change in sentiment" took place.³ Lloyd George carried his "Khaki" elections of December 14, 1918, on the slogan, "Hang the Kaiser and let the Germans pay the costs of the war." Clemenceau, in a public speech, renounced all the limitations imposed by Wilson. For him and for his successors, domination was the main goal, which people

¹ At the instance of the Supreme Command, the German note of October 12, 1918, had stated the assumption that the Allies, on their part, also adopted the standpoint of President Wilson's proclamation.

² Cf. Sering, "Friedensdiktat von Versailles und Deutschlands wirtschaftliche Lage," Berlin 1920, p. 22.

³ R. St. Baker, "Woodrow Wilson, a World Settlement," London, William Heinemann, Ltd.; New York, Doubleday, Page & Co. (Baker was the head of President Wilson's Press staff during the peace negotiations.)

expressed in the words, "security for France." A Rhenish buffer State was to be created, and France was to hold the bank of the Rhine as a permanent military frontier. The amount to be paid for reparations was to remain undetermined as long as possible, and to be ultimately fixed at such a high figure as to prevent Germany's economic recovery and to provide a continual pretext for interference in her internal affairs. The British were not over-pleased with the idea of an extension of the French dominion right up to the Rhine; but, as concerned the reparation question, Lloyd George outdid Clemenceau's demands in the Paris negotiations—not merely because he felt himself bound by his election promises, but also because public opinion in Great Britain saw in Germany a most dangerous industrial and commercial competitor.¹ Moreover, the encashment of the entire costs of the war opened out for Great Britain the prospect of a much larger share of the German payments.² The more farsighted and conscientious political economists of the British delegation, such as J. M. Keynes, failed to carry sufficient weight.

Wilson, it is true, had come to Europe with the firm intention of fulfilling the obligations undertaken on behalf of the American people. But Baker assumes that he had been duped prior to America's participation in the war. Subsequent to the German offer of peace in December 1916, he had appealed to the belligerents to state in full detail their own peace conditions. On January 10, 1917, *i.e.*, three months before the American declaration of war, the Allies tendered a reply which, suppressing all direct reference to the aims of conquest embodied in their

¹ At the Paris Conference of January 2, 1923, the British Prime Minister, Mr. Bonar Law, put this matter in the following way. He said: "If an earthquake took place which swallowed up Germany, and the rest of the world remained as before, Great Britain would be the gainer for the reason that Germany was so formidable a rival in trade and industry. This was a fact not realized in France." British Blue Book, No. 3, 1923, p. 77.

² Baruch, "The Making of the Reparation and Economic Sections of the Treaty," p. 21.

solemn and secret treaties, hid the real facts in a maze of general and ambiguous phraseology.¹

When, shortly after the second Russian revolution (October 1917), Trotzky published these treaties in so far as they were to be found in the Russian archives, American public opinion treated the affair as "propaganda" emanating either from Germany or from Russia;² the American ministers abroad had neglected to report to Mr. Lansing on the matter, and it was not until after his arrival in Paris that President Wilson became properly acquainted with their real import and bearing. Altogether, Paris was for him an eye-opener, and he was soon constrained to write: "The whole course of the Conference has been made up of a series of attempts, especially by France, to break down this agreement, to get territory and to impose crushing indemnities."³

To appreciate President Wilson's attitude towards these attempts and to understand his ultimately giving way, it is necessary to realize the policy which he had followed ever since the outbreak of the war. During his country's neutrality he had abandoned that impartiality which he himself had proclaimed when the war broke out; then, when the scale seemed to be turning in favour of Germany, he joined in the war although he was anything but unaware of its real causes.⁴

¹ Baker, Vol. I. p. 31. Baker gives the texts of the private secret treaties. These deal with the division of Turkey among Russia, Great Britain, France (Treaty of 1915, 1916 and 1917) and Italy; the dismemberment of Austria-Hungary for the benefit of Italy (1915) and Roumania (1916), who had been allured from their alliance with Germany by "generous" promises of territory; the dismemberment of Germany under an agreement between Great Britain, France and Japan concerning the division of the German colonies (1917); and the arrangement under the Russo-French Agreement which assured France the Rhine as her eastern frontier and the Russians a free hand to annex German and Austrian territory (1917).

² Baker, Vol. I. p. 37.

³ *Ibid.*, Vol. II. p. 60.

⁴ On May 29, 1914, President Wilson's friend, Colonel House, wrote to him from Berlin: "Whenever England consents, France and Russia will close in on Germany and Austria. England does not want Germany wholly crushed, for she would then have to reckon alone with her ancient

But, apart from all this, President Wilson lacked the qualities requisite for an *arbiter mundi*. This became clear when, at the very outset of the Paris negotiations, he consented to the resolution that the enemies were to be excluded from the discussions and to have peace terms imposed upon them.¹

This proceeding was absolutely irreconcilable either with the agreement² just come to with Germany or with President Wilson's programme.³

From this first sacrifice of his principles there followed, with logical necessity, all President Wilson's subsequent breaches of good faith; for the original resolution referred to above made Germany a mere object of foreign interest and denied her any legal status. Of course, neither President Wilson nor his experts possessed that knowledge of European—still less of German—affairs which, but for

enemy, Russia." Quoted from "The Intimate Papers of Colonel House: arranged as a Narrative by Charles Seymour, Sterling Professor of History, Yale University," 1926, Vol. I. p. 249.

¹ This resolution was apparently adopted without any debate (Baker, Vol. I. p. 174). In distortion of the meaning of Lansing's note of October 8, 1918, Clemenceau, in his own note of May 10, 1919, states that the "Allied and Associated Powers can consent to no discussion of their rights to determine the bases of the peace conditions; they can merely consider any suggestions of a practical nature which the German delegates may have to submit to them."

² The notes exchanged in October by the German and the American Governments referred constantly to the despatch of deputies to initiate negotiations, as well as to "entering into discussion," etc. Only the meanest sophistry could twist this to signify anything but a discussion between the two ex-belligerent parties. To give only one example: President Wilson's note of October 23, 1918, which evoked the German revolution, speaks expressly of "peace negotiations," as, for instance, in the sentence which runs: "If it must deal with the military masters and the monarchical autocrats of Germany . . . it must demand not *peace negotiations* but surrender." Accordingly, President Wilson, by withholding real peace negotiations from the German Republic, laid himself open to the charge of duplicity.

³ Point 1 speaks of "open covenants of peace, openly arrived at." Point 2 of the Mount Vernon Speech of July 4, 1918, contains the words: "The settlement of every question, whether of territory, of sovereignty, of economic arrangement or of political relationship, upon the basis of free acceptance of that settlement by the people immediately concerned . . ."

the co-operation of the other parties, would have enabled them to perceive the snares laid for them. Finally, too, events in his own country seem to have assisted in annihilating Wilson's resolve to stand by the arrangements which had previously been agreed to. In the United States a reaction of public opinion had come about identical with that in the victor States of Europe after the Armistice.¹ In November, 1918, the American people elected a Congress opposed to the President. Just like Mr. Lloyd George and M. Clemenceau, the American Senator, Mr. Lodge, demanded, at the sitting of the Senate on December 21, that "Germany should pay a big war indemnity," and that "the United States should get its due share in these indemnities," words which obviously meant something very different from the mere reparation of losses suffered by the civilian population. The Washington Treasury refused to entertain any readjustment of debts as between America and Europe, and this deprived President Wilson of that very argument which might have influenced Mr. Lloyd George and M. Clemenceau and have given them a chance of meeting him at least half-way in the matter of war indemnities.²

Even as late as February, 1919, Wilson had sent a wireless message to the American delegates, during his homeward voyage, instructing them to "dissent, and if necessary dissent publicly, from a procedure which 'is clearly inconsistent with what we deliberately led the enemy to expect, and cannot now honourably alter simply because we have the power.'"³

But after his return to Paris he commenced compromising, and every compromise meant a further deviation from the path which could not be deserted without a sacrifice of honour. Concessions in the Reparation question appeared to him to be a suitable lever by which to influence his opponents in favour of his pet scheme of a league of nations. President Wilson salved his conscience by imagining that, if he once got the League formally

¹ Baker, Vol. I. p. 90.

² *Ibid.*, Vol. II. p. 374.

³ Baruch, *op. cit.*, pp. 25, 26.

established, it would serve directly and indirectly as a *means whereby to modify the peace conditions and to rectify all the injustices of the Treaty*, so soon as time had allayed the burning passions which war had set aflame.

In this way arose the Reparation clauses of Part III of the Treaty of Versailles—clauses which form an admirable example of the “unclean spirit”¹ dwelling in the Peace Treaty. It is full of sophistical phrases intended to conceal the violations of the Preliminary Peace. Article 232 makes use of the words of Mr. Lansing’s note of November 5, 1918, to require Germany to “make compensation for all damage done to the civilian population,” but it immediately infringes this principle by adding, “and in general all damage as defined in Annex 1” (to Article 232), that is, above all, the capitalized value of all war pensions and annuities which the peoples pitted against the Central Powers have to pay to the members of their military and naval forces.²

In order to conceal the injustice of this claim and to pacify the world’s conscience, people invented the fairy tale, contained in Article 231,³ about “the war imposed upon them by the aggression of Germany and her Allies,” and added thereto the mare’s nest about Germany’s acknowledgment⁴ that she accepted “the responsibility for causing all the loss and damage.” This phrasing

¹ Alcide Ebray, “La Paix Malpropre” (The Unclean Peace), Milano, Società Editrice “Unitas.”

² “Don’t lie, but if you lie, stick to it,” the late Admiral Fisher is said to have preached to his officers. But the art of lying is a difficult one; it is one which the trained drafters of the financial stipulations of the Dictate of Versailles had not fully mastered; for, by using the word “and” they admit that, even in their own view, the injuries detailed in the Annex to Art. 232 do not coincide with the injuries to the civil population and, accordingly, not with Lansing’s note.

³ In another connection, Bernard Shaw speaks of “the necessity of stuffing the British people with a fairy tale as to the nature and the causes of the war.” Bernard Shaw, “Peace Conference Hints.”

⁴ The German governments protested repeatedly against this clause; but in the end, under the pressure of famine, physical force and anxiety lest the Reich should be dismembered, the Treaty was signed.

covers, indeed, all the various damages to which Germany's obligations are restricted on account of her economic incapacity to pay for all the costs of the war. Even if the statement were true, however, it would fail altogether to justify the breach of faith, inasmuch as the alleged responsibility of the Germans for the war was a settled question prior to the conclusion of the preliminary peace. Besides the damages already referred to, Germany had to shoulder the Belgian war debts and the heavy costs of the occupation.

Under the valuable leadership of Mr. John Foster Dulles, the legal experts of the Americans repeatedly protested against the inclusion of all costs and against the pensions scheme put forward by Great Britain, both of which they stated to be in contravention of the preliminary peace. In opposition to the French, they pointed out that Mr. Lansing's declaration of November 5, 1918, made on behalf of the Allied and Associated Powers, could not be altered by the Armistice Treaty into which the French had smuggled the words "*Réparation des dommages.*" They very rightly argued that the Armistice Treaty was a military document intended to place the Allied and Associated Powers in a position to realize the peace conditions which they had previously propounded. In refutation of the sophistical attempt of the British delegates to represent their scheme as harmonizing with Mr. Lansing's note, the Americans claimed that, even on the most liberal interpretation, the "restitution of the occupied territories" by compensation could not be made to include pensions and was to be limited to "direct physical damage to property of non-military character and direct physical injury to civilians."¹

The economic experts of the United States ultimately agreed to the inclusion of the pensions in the German obligations, but only because they assumed that the amount to be actually paid would be determined by Germany's capacity to pay, and that she would be unable to provide the money for the pensions. Consequently they

¹ Cf. Baruch, *op. cit.*, pp. 19, 24.

believed the total sum "would practically only modify the basis for dividing what she did pay."¹

The expectations remained unfulfilled, and the responsibility for a breach of the promise given on behalf of the American people rests with President Wilson² personally and with Colonel House, who replaced him in the Council of Four during his illness and who was anxious for a compromise on any conditions.

The decisive factor in the matter was the report of General Smuts, who, assuming the rôle of advocate on behalf of the British dominions, refused to renounce their share of the spoil. When the demands for full compensation collapsed in consequence of the American opposition, the French welcomed the British compromise proposal because, by including the pensions and costs of occupation, "the financial demands were kept at a sufficiently exorbitant total to serve the original object of crippling Germany's economic recovery."³

The indebtedness was to be fixed on or before May 1, 1921; it was to be determined by the Reparation Commission, not on the basis of capacity, but of the claims sent in. The Commission was empowered to act solely upon its own discretion. It is at once a committee of creditors, a first and final tribunal and an executive body. In its legal decisions in its own cause it is not "bound by any particular code or rules of law or by any particular rule of evidence or of procedure, but shall be guided by justice, equity and good faith!"⁴

After the conclusion of the Napoleonic wars, a French delegate was included in the war compensations commission, and he was entitled to participate therein on an equal footing with the other delegates. The German

¹ Baker, Vol. II. p. 383.

² "On being informed that not a single lawyer in the American Delegation could ever give an opinion in favour of including pensions, all the logic being against it, the President exclaimed: 'Logic, logic! I don't care a damn for logic. I am going to include pensions.'" Cf. Keynes, "The Revision of the Peace Treaty," p. 165.

³ Cf. Baker, Vol. II. pp. 68 and 383; Baruch, p. 261.

⁴ Annex to Art. 233; 11.

Government has no share whatever in the decisions of the Reparation Commission. The one Power from whom a certain impartiality might have been expected, namely, the United States, took no part in the Commission after the Senate had rejected the Treaty of Versailles.

In 1921 the Commission fixed Germany's total indebtedness at 132 milliard gold marks. This was done in pursuance of a compromise between the French and the British delegates, the latter of whom—Sir John Bradbury—had computed the amount at 104 milliard gold marks. The figure of 132 milliards comprised also the pensions. These pensions may be calculated with comparative ease. Taking Keynes' capitalized value of about 80 milliard gold marks for pensions, there remains 52 milliards, a figure which includes the damage to public property, though, according to Mr. Lansing's note, Germany is not liable for such damage. The figure also includes the liability imposed upon Germany for damages for which Austria-Hungary, Bulgaria and Turkey are primarily responsible, so that any payments made by these countries ought to be deducted from the amount.

It may be assumed with Professor Keynes that Sir John Bradbury's computation comes nearest to a really impartial estimate. Hence Germany's indebtedness according to the letter of the Versailles Dictate is made up of 74 milliard marks for pensions and about 30 milliards for damage done to the persons and property of the civilian population (and also to public property), in addition to which there are about 6 milliard marks for the Belgian war debt.¹

Accordingly, two-thirds of the Reparation amount is unjustly claimed. By including pensions and annuities in Germany's liability, compensation for damage to civilians has been converted into an exorbitant tribute of unlimited duration.²

¹ Cf. J. M. Keynes, "The Economic Consequences of the Peace."

² On the basis of the amortization within thirty years, as provided for in Article 232, the annual payment would be 9,600,000,000 marks, or, assuming 5 per cent. interest and 1 per cent. for sinking funds, 8,280,000,000 marks.

According to the income-tax assessment, the national income of the Reich amounted before the war to 40 milliards. The annual tribute demanded of Germany is equivalent to one-fifth to one-fourth of the sum. The private property assessed under the Defence Contribution Act in 1913 on estates valued at 10,000 marks upwards totalled 182,350,000,000 marks; leaving aside Alsace-Lorraine, Posen, West Prussia and Upper Silesia, it would aggregate 170 milliards; excluding small estates (up to M. 50,000) exempt from the contribution because their owners enjoyed only a minimum income, the total would be 143 milliards. Taking into account the depreciation in the value of money subsequent to the war, this would equal about 184 milliards, though if we deduct the annexations and the losses resulting from the great sack of Germany, it would not amount to much more than the Reparation payments in which Germany was mulcted.

How thoroughly justified Sir John Bradbury was in demanding a reduction of the total debt was proved by the scrutiny of the French compensation claims which the Reparation Commission made in the spring of 1921 and the decision which is passed upon them. We have, indeed, to rely in this matter upon deductions, since, acting in the spirit of Versailles, the Commission considered it unnecessary to state the reasons for its decisions; nay, it did not even publish its various decisions in detail. Of the 132 milliard marks total indebtedness ascribed to Germany, the French share constitutes 52 per cent., that is to say, 68,640,000,000 gold marks. The capitalized value of the French war pensions amounts to roughly 33 milliards, so that 25,600,000,000 remains for the restoration of the French war zone. This sum is but little less than the bill presented by France in April, 1921, for damage to property. The amount claimed was 127 milliard paper francs. At the rate of exchange then prevailing (1 gold mark = 3.25 paper francs), this would mean 39 milliard gold marks, although in point of fact the French succeeded in obtaining consent to a higher valuation of the franc on the ground that the depreciation of their currency was a

merely temporary affair. This assumption was endorsed by Mr. Boyden, the American who was appointed arbitrator, his decision being that 2·2 paper francs should be regarded as the equivalent of one gold mark. In this way the claim for 127 milliard paper francs was made to equal 57,700,000,000 gold marks. Keeping, therefore, to the exchange rate which actually existed at the time the debt was fixed, we see that the Reparation Commission recognized the French compensation claims to be substantially correct. According to the official statements in the French Chamber, the total taxation of France for rehabilitation purposes up to the close of 1927 totalled 85,760,000,000 francs, 72½ milliards being actually spent by October 1, 1927. The former chief accountant of the Reparation Commission, Mr. George P. Auld,¹ basing his calculations on the average exchange rates of the years in which the Restitution loans were issued, values the 86 milliard paper francs at 6,250,000,000 dollars (*i.e.* 26,250,000,000 gold marks), or, including interest, at 7,390,000,000 dollars (*i.e.* 31,040,000,000 gold marks). Mr. Auld assumed the unscrutinized claim to be correct. Actually it is overstated to an exorbitant degree. It is, of course, humanly comprehensible that all classes of the population co-operated with the Government, not merely to compensate the devastated districts, but to enrich them. "In any country, whenever the Government foots the bills, claims and charges are notoriously exorbitant. Where the bills are to be presented for payment to an enemy country, one can hardly expect greater restraint."²

It is, therefore, extremely interesting to note that, even as early as the year 1923, the ten devastated departments were able to produce roughly 20 per cent. of the French taxation total, whereas in 1913 they yielded only

¹ Auld, "The Dawes Plan and the New Economics," New York, 1927, pp. 316, 317.

² Harold G. Moulton and Cleona Lewis, "The French Debt Problem," New York, 1925, p. 149. In this book, astounding examples of over-charging are quoted from official sources.

16 per cent.¹ Professor Keynes² has proved in detail what enormously exaggerated claims were presented to the Reparation Commission by the French Government. He arrives at the conclusion that the French compensation claim for 127 milliard paper francs (= 39 milliard gold marks) was at the least between double and treble the actual damage sustained and was probably fourfold the real figure. Consequently, if we include public property, the damages will have to be computed at something between 10 and 20 milliard gold marks: 14,105 millions would result if we convert the compensation total claimed for 1927 (85.76 milliard francs) at the rate of exchange of 1 gold mark = 6.08 francs. Moreover, one may now apply to France the argument used in regard to Germany in connection with the monetary inflation, namely, that the devaluation of its currency rids the State of a corresponding proportion of its debts. Fifteen milliards represent almost exactly France's 52 per cent. share of the 30 milliards computed by Keynes.

The Belgians were guilty of just the same exaggerations as the French. Their share of the total German liability towards the Allies was 8 per cent., which worked out at 10½ milliards, or, deducting the military pensions, about 10 milliards, whereas the actual damages amounted, perhaps, as Keynes computes, to about half that sum.

At Versailles the German delegation held that Mr. Lansing's note obligated Germany "to compensate the Allied civilian population for all damage suffered by them as a consequence of the German aggression in the districts of Belgium and France occupied by the German troops." For only in Belgium and, mediately, in North France, could there be any question of aggression, while even there it was undertaken solely under urgent necessity. In addition to this, Germany voluntarily declared herself prepared to go beyond the terms of the preliminary peace

¹ Moulton and Lewis, *loc. cit.*, p. 194.

² Keynes, "The Revision of the Peace Treaty," Berlin, 1922, pp. 112-125. In his "Consequences of the Peace" (1920), Keynes computed the damages to French property at 16 milliard gold marks.

and to assume liability for the loans which up to November 11, 1918, Belgium had borrowed from her allies for war purposes. At the same time, Germany put forward the certainly just claim to participate in fixing the damages, leaving differences to be settled by a mixed arbitral tribunal under neutral chairmanship.

The discrepancy between the economic demands of the dictated peace and Germany's capacity to pay was conscious and intentional. "In so far as the main economic lines of the treaty represent an intellectual idea," writes Keynes, "it is the idea of France and of Clemenceau." Clemenceau's whole purpose was

"to set the clock back and to undo what since 1870 the progress of Germany had accomplished. By loss of territory and other measures her population was to be curtailed, but chiefly the economic system upon which she depended for her new strength, the vast fabric built upon iron, coal and transport, was to be destroyed. . . . Hence sprang the cumulative provisions for the destruction of a highly organized life."¹

But Great Britain co-operated ardently in the work of destruction. Just as France desired the political and economic paralyzation of Germany on the European continent, so Great Britain aimed at her elimination from the markets of the world as a whole. For the attainment of their ends, these two Powers employed various means. Apart from the burden of tribute, France was anxious for the annexation and for the dismemberment of the Reich, while Great Britain wanted the seizure of Germany's mercantile fleet, oversea shipping installations, harbour accommodation and submarine cables, wanted the complete confiscation of her colonies and the liquidation of her foreign undertakings—wanted, in fact, the confiscation of all German property abroad and the cancellation of her oversea rights, concessions and interests as well as those of her allies.

But the full significance of the economic provisions of the Peace Treaty becomes clearly recognizable only

¹ J. M. Keynes, "The Economic Consequences of the Peace," London, 1920, pp. 26 and 32.

when they are regarded in the co-ordinating light of its international stipulations. It is these that typify the real spirit of the whole document. In their entirety they reduce the Germans and their allies to peoples of inferior legal status. They deprive them internationally of their juridical personality. In cruel contrast to Wilson's programme, which solemnly preached the equality of all civilized nations, the Germans, the Hungarians and the Bulgarians were dispossessed of the unquestionable rights pertaining to all free peoples—rights which the Turks managed to retain by fighting on heroically in defence of the Anatolian bastion. The Germans in the Reich and in Austria, together with the Hungarians and Bulgarians, were deprived of their rights in various ways. To mention only the chief points :

First by the unilateral disarmament ; by the abolition of universal compulsory military service ; by the clause prohibiting educational establishments, universities, etc. from occupying themselves with any military matters ; by the prohibition of all measures of mobilization or measures appertaining to mobilization ; the prohibition of all heavy artillery and all military aircraft ; the unilateral defortification of the frontiers, and the unilateral demilitarization of the Rhine zone.¹ According to the preliminary peace, "adequate guarantees" were to be given and taken that national armament would "be reduced to the lowest point consistent with domestic safety." The Versailles Dictate has boiled this obligation down to : "In order to render possible the initiation of a general limitation of the armament of all nations, Germany undertakes strictly to observe the military, naval and air clauses that follow." A somewhat clearer statement was made in reply to the objections of the German Peace Delegation. Referring to disarmament, that reply stated

¹ Clemenceau wanted to leave Germany 200,000 regular troops. Wilson reduced the figure to 100,000 (K. F. Nowack, "Versailles," Berlin, 1927, p. 204). Lloyd George agreed. Neither Wilson nor Lloyd George considered the fact that France would not think of disarming, and that accordingly they were making her the sole lord of the European continent.

the intention of the "Allied and Associated Powers . . . to start immediately negotiations with a view to the possible adoption of a project for general reduction . . . which the said Powers seek to realize as one of the best means of preventing war." In harmony herewith, the members of the League of Nations recognize, in Article 8 of the Peace Treaty, the maxim "that the maintenance of peace requires the reduction of national armaments to the lowest point consistent with national safety"—that is, security against foreign enemies according to the particular circumstances of each State. But the acceptance of any disarmament schemes propounded by the Council of the League is contingent upon the decision of the various Governments; and it is well known that the ideas of "reduction" and "disarmament" have been forced to make way for the idea of mere "limitation," though even this idea remains utterly unrealizable, for every effort even to stop the competitive armament which has set in since the war has proved completely abortive.

Secondly, the principle of national self-determination so affectingly proclaimed by Wilson is valid for the others; it is withheld from the Germans, the Hungarians and the Bulgarians. According to the census of 1910, there lived, in the districts lopped off Germany, 6,480,000 persons, of whom 2,910,000 (45 per cent.) returned themselves as speaking exclusively German as their mother-tongue. Large districts in which the great majority of the inhabitants were thoroughly German have been subjected to foreign domination. Again, the 6 million Germans in Austria and the 3½ millions in Czechoslovakia are not permitted to join the Reich. The crassest case, however, is the delimitation of the Germano-Polish frontier and the creation of the so-called "Corridor." This Corridor is a strip of land along the Vistula amputated from the main body and tacked on to Poland. Like the ancient city of Danzig, where it terminates and which has been similarly cut off, it is an almost purely German district; it has been under German civilization for seven centuries; no one dares to dispute its entirely German character. But, in the

strategic and economic interests of Poland, the Corridor and Danzig had to be sacrificed. One ridiculous but pathetic result is that East Prussia, with its old royal town of Königsberg, where the Prussian king used to be crowned, has been completely severed from the main body of the country. By deception and intimidation Wilson was induced by Dmowski¹ to agree to this brutal mutilation of Germany, although it meant for him a breach of his promise² and aroused obstinate opposition on the part of Lloyd George.

The treatment of the national minorities by the new States is on a par with the neglect of the right of self-determination by the dictators of the peace conditions. With few exceptions³ the rights of the minorities, in themselves quite inadequate, are very inadequately protected by the League of Nations. In the most extensive manner the members of the minorities have been deprived of their property, without any compensation or with a purely nominal one. It is significant that, during the seven years from 1919 to 1926, Polish pressure sufficed to oust from the Polish portions of Posen and West Prussia (irrespective of Danzig and Silesia) no fewer than 785,000 Germans.⁴

¹ Like the Germans, Wilson had never understood by access to the open sea anything but the granting of safeguarded traffic on the Vistula, possibly with the neutralization of its lower reaches, and the creation of a free harbour in Danzig. After a long struggle, in November, 1918, he yielded to the pressure exerted by Dmowski, who threatened to mobilize the American Poles against him. Cf. Roman Dmowski, "Polityka polska i odbudowanie państwa" (Polish Policy and the Reconstitution of the State), Warsaw, 1925, pp. 401 and 402.

On the geographical, historical and economic relations of the Polish Corridor, cf. Dr. Johann Fürst, "Der Widersinn des polnischen Korridors—Entgegnung auf die Schrift von Stawski, Polens Zugang zum Meer und die Interessen Ostpreussens," Berlin, 1926. Also Johann Reiners, "Kräfte polnischer Staatsgestaltung," Posen, 1926.

² Point 13: the "Polish State should include the territories inhabited by indisputably Polish populations, which should be assured a free and secure access to the sea."

³ E.g., President Calonder's impartial administration in Silesia.

⁴ Cf. Friedrich Heidelberg, "Das Deutschtum in Pomerellen und Posen," printed in the "Deutschen Blättern in Polen," Posen, 1927, Brochure 5, p. 1. (Berechnet aus dem Vergleich der Volkszählungen 1910 und 1926.)

The expropriation of the minorities in the border States followed the example set by the Bolsheviks and the Western Powers.

Thirdly, the liquidation of German property. The dictated peace has not merely set its seal upon the illegal seizure of private enemy property, including claims, patents, etc.,¹ but has carried the right of such robbery into the post-war period and has extended it to the ceded districts, including the German colonies. The obligation laid upon Germany to compensate her nationals for the losses inflicted upon them is a mere formal compliance with the demands of international law, since the Treaty of Versailles deprived Germany of the power to make due compensation,² and since no compensation can replace what has been lost through the arbitrary destruction of an undertaking abroad and the rupture of personal relations. The liquidation of enemy alien property was originally intended to effect a permanent injury of the Central Powers and to eliminate an undesirable competitor. Moreover, inasmuch as during more than a

¹ The rights of war, as understood on the European Continent, following ancient usage, had principally treated as sacred the private rights of enemy aliens. So, too, the common law of England and the United States, which differs in character from continental law, had been habitually allowed to lapse, these countries having adhered to the more humane custom adopted in the Hague Land War Convention. Apart from this, the United States was bound by Article 23 of the Prusso-American Treaty of 1785 (renewed in 1799 and 1828). The Central Powers have never resorted to such measures otherwise than by way of proclaimed reprisal; solely by respecting the sacredness of private property, they helped to keep alive a most important principle of international law which might otherwise have been forced to make way for a new and less humane war usage. Cf. "*Völkerrecht im Weltkrieg 1914-1918*," published under the auspices of the German Reichstag, Vol. IV. pp. 361 *et seq.*

² The compensation was not legally settled until 1928. A statute was drafted in Germany which, ignoring the so-called non-physical losses (good-will, earning capacity, etc.), computed at $7.7 + 2.8 = 10\frac{1}{2}$ milliard marks the peace value of the ascertained liquidation losses and arbitrary damage (*i.e.* damage caused by expulsion from possessions and colonies ceded by Germany, or suffered in foreign countries on account of the war). On the whole the compensation can only be characterized as a miserable pittance.

century the Anglo-American law had not been put into force, the confiscation of enemy property in the case of Germany and her allies appears particularly invidious. On a motion of its British members, the International Law Association, in its plenary sitting, unanimously characterized this procedure as "a relic of barbarism worthy of the most severe condemnation."¹ It stands on a level with the brutal expulsion of German settlers and merchants in tropical Africa, China, etc., who, with their wives and children, were packed off like slaves—largely under the care of coloured guards.

Fourthly, with the one exception of the Weser, all German rivers, together with their navigable tributaries, have been subjected to the control of international commissions in which Great Britain and France are represented. Germany is also represented, it is true, but she is given only a weak voice in the decisions.

Fifthly, the preclusion of Germany from all international relations cultivated by her at the outbreak of war and her subjection to all measures "which may be taken . . . by the Allied and Associated Powers, in agreement where necessary with third Powers, in order to carry out the . . . stipulation" concerning those relations (Article 118: compare also the analogous provisions of Article 283, Articles 31, 40, 117).

"Everywhere the same legal attitude; on principle Germany is barred, but if her participation be of any use to the other Powers, it is simply decreed, and any German objection or claims to participation in decisions are ruled out of question from the very outset."²

We are indebted to Senator Robert L. Owen for having laid before the "Neutral Committees and Scholars on the War Guilt" two questions which appeared to him to be of incisive importance for ascertaining historical facts,

¹ Resolution of September 9, 1925, quoted by Dr. Hugo F. Simon in "Reparation und Wiederaufbau," Berlin, 1925, p. 47.

² Cf., in this and the foregoing, Hans Gerber, "Die Beschränkung der deutschen Souveränität nach dem Versailler Verträge," Berlin, 1928, pp. 27 and 15 *et seq.*

for stabilizing international relations and for establishing international peace. The questions run :

1st : " Are the treaties which concluded the war based, in regard to important points, on the assumption that one group of powers bears exclusive responsibility for the war, while the other group has no such responsibility whatever ? "

2nd : " If this is the case, does the assumption agree with the facts as now known in such a way that the conscience of mankind may accept the treaties as a just punishment for those who are alone responsible for the war ? "

The Norwegian Commission, which acted as secretary for the Plenary Commission, placed these questions before a large number of personages of high standing as professors of international law in the universities of neutral countries. Both questions were answered more or less thoroughly by scholars in Switzerland, Sweden, Finland and Norway, a particularly well-argued reply being given by the head of the Norwegian Commission, Dr. H. H. Aall. The first of the questions was answered in the affirmative by every one of the scholars ; Dr. Aall's views culminate in the words : " The war was, on the side of the Entente Powers, a war of conquest—in part, even, a war of destruction ; while, on the side of the Central Powers, it was a defensive war." ¹

The replies to the second question concur in the view that the peace treaties are irreconcilable with the principle of justice recognized by the civilized world.

Since the days of Charlemagne, European history has seen no such enthrallment of a people as that imposed upon the Germans at Versailles. The disarmament of the vanquished, on the one hand, and on the other the assumption by the victors of a monopoly of the most effective means of attack, coupled with the collection of a tribute which squeezes the last *pfennig* out of the defeated nation, constitute the essence of the method of domination which has now been practised for three centuries in

¹ " Neutrale Komitees und Gelehrte über die Kriegsschuld. Antworten auf 2 Fragen des Senators L. Owen, U.S.A.," Oslo 1927, p. 400.

no old cultural regions save those inhabited by the brown races. In British India, no native dare carry any weapon. Tanks, aeroplanes and heavy artillery are manned by whites only, and an incessant drain of produce has resulted in a great impoverishment of this subjected nation. Thus, as its immediate outcome, the Great War waged by the empires for "liberty," "democracy" and "self-determination" has, in fact if not in form, placed the people who constitute the core of Europe upon the same footing as the coloured subjects of the colonial Powers. English theorists have rightly perceived that imperialism finds its fullest expression in a revival of mercantile policy, *i.e.* in the employment of State means for mercantile (economic and particularly capitalistic) purposes. But, in the mercantile wars which set their sanguinary stamp upon the seventeenth and eighteenth centuries, the aim was to ensure a share of the dominion over the coloured population of the tropics as the chief source from which the victorious colonial Powers of those days might derive their wealth. No one dared to dream of subjecting any one of the rival States which were, at that time, settling down into national entities in Europe. The neo-mercantile wars of conquest began with the occupation of Cyprus and the bombardment of Alexandria; then followed the Hispano-American War and the subjection of the Boer Republics; they found their tragic close in the great conflict which commenced in 1914 and ended in the long-desired division of colonies and politically depressed zones hitherto safe from the depredations of the empires, and the disinheritation and enthrallment of the Germans, the Magyars and the Bulgarians.

If President Wilson hoped that there would be, inherent in the League of Nations, a force capable of righting the evils heaped up in the treaties of Versailles, St. Germain and Neuilly, he must have overlooked the fact that his own inconsistency and disloyalty had deprived the League of the necessary moral foundations. He also failed to grasp the truth that Great Powers never set limits to their own imperial aims—that those limits must be set for

them (Ranke). Wilson could not, it is true, foresee that the two largest members of the white race—the United States and Russia—would decline to join the League.

In the historical period which closed with the World War, six great States maintained the balance of power in Europe; their interests were at such variance that the smaller States enjoyed equal rights with them and were able to develop unhampered. This structure gave rise to the varied wealth which rendered Europe the nucleus of human civilization. Though not in name, it was in fact, as Hintze has stated, a co-operative structure.¹

The empires which had grown up in the age of railways have demolished that structure and have given to the new one the form, it is true, of a co-operative society, but the very document which bestowed the form destroyed the spirit and essence of international co-operation.

The League of Nations possesses as little of the nature of a co-operative society as does a joint-stock company, nine-tenths of whose shares are in two people's hands. The small shareholders are permitted to talk at the general meetings and to elect some of their number to the directorate, but in all important matters they have simply to submit. Their representatives have only one function, namely, to protect the rights of the weak from the most grievous violation. Although non-European States are represented in the League, Europe is the fulcrum on which all its activities turn. The biggest naval Power and the biggest military Power in the world determine its policy. As colonial Powers of the old type, with preponderantly coloured subjects, they owe their predominating position in Europe to the disarmament and enthrallment of Germany. French militarism determines the policy on the Continent; for, by military alliances with Belgium, Poland and the Little Entente, France has confirmed the enormous preponderance which she

¹ So, too, in the frequently but unjustly despised conglomerate State of Austria-Hungary, the Czechs, the Poles and the Italians enjoyed a legally assured possibility of retaining and developing their nationality to a degree that may well excite the envy of the Germans and Hungarians now incorporated in Czechoslovakia, Poland, Italy and France.

obtained at Versailles. The maintenance of "security" and "peace" means, as her statesmen persistently reiterate, the maintenance of the "treaties," that is to say, the eternalization of the subjugation of the vanquished.

Great Britain, who has been joined by Italy—the land with the long seaboard—is mainly occupied with extra-European interests, though the disarmament of Germany and the rapid growth of aviation necessarily lead her to co-operate with France. The predominant position which the war enabled these two Empires to gain in Europe, Africa, the Middle East, and Southern Asia can be upheld, for the time being, only by a condominium. Consequently, in European affairs, Great Britain has repeatedly allowed France to satiate her lust for power. Unfortunately, it must be greatly doubted whether any success will crown Germany's efforts to restore friendly relations with France on the basis of an equal footing, by means of the Locarno Pact of December 1, 1925. Germany's solemn renunciation of any alteration of her western frontiers by force and the guarantee given by Great Britain and Italy, not only of the territorial *status quo*, but also of the unilateral disarmament of the Rhine zone up to 50 km. eastwards of the right bank, were met by the appointment of Poincaré as head of the Government and by a military statute which carries to excess the idea of a "nation in arms," and expresses the determination to possess, for the future, the best equipped and most powerful offensive army in Europe.¹

¹ There is, it is true, a marked reduction in the size of the standing army, as compared with 1913; but in that year the three-years' service was introduced in preparation for the intended war of aggression against Germany, and the present return to a one-year's service has naturally reduced the number of active troops. However, the accelerated training means, to quote General Girod, "nothing but a readjustment of the ratio of the standing army to the reserves—a shifting of the centre of gravity of the mobile forces from the barracks to the trained civilians." Cf. Generalmajor a.D.v. Frankenberg and Proschlitz, "Was sie vergassen!" *Deutsche Allgemeine Zeitung*, No. 581 of 13th December, 1927. The alleged disarmament has been accompanied by a gigantic augmentation of the machinery of war; it signifies, indeed, a vast reinforcement of French military power.

The small infantry dugouts constructed as a protection against a Polish attack had to be demolished; whereas the enormous girdle of forts along the eastern frontiers of France and Belgium are being developed at great cost. In this way the demilitarized Rhine zone is being converted into an extensive glacis of assault. It has not even proved possible to effect any appreciable mitigation—not to speak of withdrawal—of the hated troops of occupation in the Rhineland, though, as a consequence of the Dawes Scheme, these have become utterly superfluous.

In these circumstances one can well understand why the broad masses, having lost all hope of the final victory of right over might, see no salvation save in the vast movement of emancipation which has already commenced to ferment among the thousand millions cooped up in the east of Eurasia. But the majority of the Germans, failing, as people often deprecatingly say, to grasp stern realities, have not allowed themselves to be deprived of their deep-rooted belief in the indomitable force of ideas and the ultimate rehabilitation of Germany. A thorough realization of this national trait is absolutely essential to any proper appreciation of post-war tendencies.

CHAPTER II

BETWEEN VERSAILLES AND THE DAWES COMMITTEE

The Costs of Rehabilitation and the German Payments—The London Ultimatum—Germany's Fulfilment Policy—The Ruhr Raid—The United States Intervenes.

ON August 2, 1924, the British Prime Minister, Mr. Macdonald, "as President of the Inter-Allied Conference . . . assembled in London," invited

"the German Government . . . to nominate representatives to discuss with the Conference the best methods of putting into force the Dawes Report of the 9th April, 1924, which the Allied Governments on their side have accepted in its entirety, and which" has been "accepted by the German Government in its letter to the Reparation Commission on the 16th April."

From this it appears that, ten years after the outbreak of the war, there still existed the idea of Governments allied against Germany. The mode of expression is one which, at the Congress of Vienna, Talleyrand¹ successfully repudiated as being an insult to France, who, though defeated, enjoyed equal rights with the victors. The negotiations which followed Mr. Macdonald's invitation were conducted in the traditional fashion, and only with the signing of the London Agreement on the basis of those negotiations with the "Allies" did the war really come to an end.

The Costs of Rehabilitation and the German Payments

That it took six years from the conclusion of the Armistice to settle the war was, in the main, due to the

¹ Gerber, *op. cit.*, p. 25.

reparation clauses of the Versailles Dictate. If the proceedings at Versailles had been conducted in good faith, the German indebtedness on the score of reparations (excluding 6 milliards for the debt due to Belgium) would have amounted to about 30 milliard gold marks.¹

Thirty milliards was the claim anticipated by the German delegation in Paris. By far the greater part of this sum had undoubtedly been paid by the time the French and Belgians raided the Ruhr district. An official German computation² places the payments on Reparation account down to the end of 1922 at 41,600,000,000 gold marks, though the Reparation Commission states them to have totalled only 8 milliards. Besides these, there exist several computations made by independent parties. On the ground of careful analyses, the Institute of Economics in Washington comes to the conclusion that, by September 30, 1922, Germany had, in fulfilment of the Treaty provisions, made deliveries which should be placed to her credit at somewhere between 25 and 26 milliards,³ a figure which Professor Keynes arrives at by a different process of calculation. The Institute of Economics considers the German computations to be, in many cases, too high; but it points out that the figures of the Reparation Commission are admittedly incomplete and the methods adopted by that Commission "legally unsupportable."⁴ The Reparation Commission calculated the value of a commodity at the price it would fetch at a public auction. This method of appraisal works out detrimentally to Germany in three ways:

1. The whole civilized world recognizes the maxim that, in cases of expropriation, the owner is to be compensated for the value which his property has for him. Consequently, in calculat-

¹ Cf. *supra*, pp. 14-15.

² On the basis of official material in Lujo Brentano's monograph, "Was Deutschland gezahlt hat," Berlin, 1924.

³ Cf. Moulton and McGuire, "Germany's Capacity to Pay" ("Deutschlands Zahlungsfähigkeit," übersetzt und ergänzt von R. Kuczinski, p. 307, Nachträge).

⁴ H. C. Moulton and C. E. McGuire, *ibid.*, Chapter III and Appendices D, E, F.

ing the value of damage to French property for which Germany was liable, this maxim was adopted throughout. But, in computing the value of the gigantic expropriations to which German property was subjected after the war (mines and foundries, factories in the annexed territories, ships and cables, enterprises abroad, etc.) just the reverse principle was applied. Only the value which, in the opinion of the Reparation Commission, the expropriated property possessed for the new owner was credited to Germany. The Commission assessed the expropriated Saar coalfields at only 300 million marks; Germany claimed 1,016 millions. As the sole natural market for Saar coal is Germany, its value for that country must obviously be greater than for any other.

2. Again, the Commission computes commodities at the value of each segregated entity instead of regarding them as component parts of an economic whole. Accordingly, the Commission assumed the value of the river and canal shipping handed over to be only 21 million gold marks, whereas Germany assessed it at certainly not less than 106 millions. The Reparation Commission did not regard the water-craft as an inherent factor in a going concern; nor did it pay any consideration to the costs of replacement.

3. The Reparation Commission does not follow the commercial custom of computing the value of a delivery at the prices ruling at the time it is made, but at those ruling at the time of assessment. In assessing, for instance, the German commercial fleet, Germany assumed the market value at the date of surrender (namely, 1919-20), whereas the Reparation Commission credited her only with the auction price obtainable during a severe crisis in international shipping. On the former computation, the figure would have been 5,753,000,000 gold marks, as against the comparative trifle of 749 millions actually allowed!

Curiously enough, the Reparation Commission reversed its principles when the results were less favourable to Germany. A typical example is the computation of the huge coal tribute which, under the Treaty of Versailles, is not calculated on the international market prices, but on those of the domestic market, with the result that, during the inflation, a merely nominal figure was placed to Germany's credit for these enormous deliveries.

Again, account must be taken of the extensive frauds perpetrated by the "trustees" and administrators in appraising sequestered German property. The unfair manipulations of the American Alien Property Custodian are notorious. But they seem likely to be put quite into

the shade by the scandalous abuses in connection with the valuation of German property in Alsace-Lorraine. The inquiry started in the year 1924 at the instance of the Alsatian deputy, M. Schumann, was concluded in 1927.¹ The result of the inquiry shows that the orders placed by the sequestrators and the liquidators served, in most cases, quite obviously to promote the enrichment of certain private individuals. Contrary to the practice adopted elsewhere in France, which determined the value to the highest bidder, the methods pursued in Alsace-Lorraine were such as to be stigmatized in the Committee's report as approaching absolute arbitrariness. The Committee declare they could not have conceived the possibility of such extensive frauds in any sound modern State. In three cases reported by the Committee, famous German mines and foundries in Rombach, Hagendingen and Knuttingen with a pre-war book value of 1,400,000,000 marks were disposed of in 1919 for 480 million francs. After deduction of the subsequently accorded abatements, dues and fees, totalling 300 million francs, only 180 million francs (35 million marks = 2.5 per cent. of pre-war value) will ever reach the Liquidation Bureau, being, in point of fact, payable only in the course of twenty years and interest at the rate of 3 per cent. during the last five years only.

For all these abuses the party principally responsible is M. Millerand, at that time Supreme Commissioner for Alsace-Lorraine and afterwards President of the French Republic.

It appears imperatively necessary that both the valuation methods of the Reparation Commission and the financial effects of the frauds just referred to should be subjected to an impartial scrutiny. These methods and frauds have affected not merely the 40,000 Germans deprived of their property in Alsace-Lorraine. The proceeds have not even sufficed to satisfy the claims of the French creditors, and nothing remained over from the balance of

¹ Cf. "Die Milliarden-schiebungen in Frankreich." Auf Grund des amtlichen Berichts, D.A.Z., March 23, 1928.

the French liquidation and clearing offices which, under an agreement of December 22, 1926, was to have been returned to Germany.

The payments to be credited to Germany exceed in value the treasures of gold and silver which delighted the eyes of the Spanish conquerors in Central and Southern America. Lexis computes that, in three centuries (from 1493 to 1800), the mines of South America and Mexico produced about $6\frac{3}{4}$ milliard marks' worth of gold; while, assuming the ratio of gold to silver at 1 to 15, they produced silver to the value of about $16\frac{3}{4}$ milliard marks; the total would thus be roughly $23\frac{1}{2}$ milliard gold marks.¹

Including Rhodesia, the South African gold mines and diamond fields, the possession of which cost the Boer republics their independence, yielded, between 1886 and 1925, roughly 22 milliard gold marks.²

Of the German payments to be credited to Reparation Account under the Treaty of Versailles and amounting to 26 milliards,³ the principal items are: private property liquidated (figured at 10 milliard marks), State property (5 milliard marks), merchant vessels and fishing craft (3.5 milliard marks), railway and non-military materials left behind at the western front (2.6 milliards). The following

¹ In "Beiträge zur Statistik der Edelmetalle nebst einigen Bemerkungen über die Wertrelation," published in the "Jahrbücher für Nationalökonomie und Statistik," 1877, Lexis places the output of gold at 2,420,000 kg., of silver at 90,200,000 kg. The ratio in the value of the two metals at the commencement of the period mentioned lies somewhere between 11:1 and 12:1; since 1637 it is about 15:1 ("Handwörterbuch der Staatswissenschaften," 3 Aufl., Bd. III., p. 582).

² The data for the period 1886 to 1900 are taken from the "Handwörterbuch der Staatswissenschaften," 2 Aufl., Bd. V. p. 1172; those for the first quarter of the twentieth century are from Woytinsky's "Die Welt in Zahlen," Bd. IV. p. 194; we also take our estimate of the value of the South African diamonds from this author (as quoted above, p. 210), who values the world's total of diamonds at one milliard and South Africa's share at 82 per cent.

³ Moulton and McGuire exclude from their calculation the sums for which Germany had a claim upon her allies and those which she had ceded to the victor States (estimated by Germany at 8.6 — 1.6 milliard marks), as well as the share of the ceded districts in the public debt ($\frac{1}{2}$ milliard marks) and a portion of the liquidated property abroad.

items are debarred from being credited :—the frequently senseless demolitions for the purpose of military and industrial disarmament (almost 9 milliards), the warships surrendered (1·4 milliards), the non-military material left behind on the eastern front (over 1 milliard), the costs of the armies of occupation (890 millions), totalling according to Brentano altogether 14·3 milliards. But by far the heaviest losses are those suffered in the way of land and capital by reason of the *annexations*—losses for which not a single penny was credited to Germany although they added enormous assets to the foreign economies. These losses vastly exceed in magnitude and duration all the damage done in the war zones. Of the French territories, for instance, not more than 4·7 per cent. were ever occupied, and they were, after all, only partially devastated by friend and foe. Germany has lost 12·44 per cent. of her territory without receiving any compensation whatever. With the help of the German payments, the devastations in the war zone have been almost completely made good; the territorial losses experienced by the German economic system are irreparable. In value and productivity, the ceded territories far exceed the average of the remainder of Germany. As compared with the situation in 1913, Germany has lost 15·4 per cent. of her arable land, 16·4 per cent. of her wheat-growing area, 17·7 per cent. of her rye-fields, 25 per cent. of her coal production, 68·3 per cent. of her iron output. Of the four industrial districts built up upon coal and iron, two, namely, Lorraine and Upper Silesia, have been permanently torn away from the German economic system, while the Saar Basin has been severed until the plebiscite to take place in 1935. Only one, the Ruhr Basin, remains in the possession of Germany.

The colonies of which Germany has been robbed were in an excellent state of development. They comprised an area four and a half times as large as the mother country. As to the value of the German colonies there exist a large number of British estimates. According to these they represent a worth of at least 100 milliards, while many

estimates place them at a far higher figure. Mr. Morel, for instance, assesses their value at more than the total war costs incurred by the Allies.¹ Besides the territory itself, the value of other forms of wealth seized in the German colonies is very large. The annexation has been given the form of League of Nations mandates, a method which excludes any possibility of crediting to Germany the values taken from her.

In all these various ways Germany has paid the highest war compensation ever exacted from any country. It is not too much to say that it totals some 200 milliard gold marks. While the victor States hugely extended the basis of their economic life, the German economy was cramped and hedged-in on all sides, and the German national income, out of which all current payments have to be made, was curtailed to a severe degree. In the years immediately following the war, the production of commodities was the more closely restricted in consequence of the country having suffered such distress from its isolation during the war. As the English historian of the Paris Peace Conference has rightly remarked: "Although the country has escaped invasion it was far nearer to complete economic collapse than any of the Allied countries themselves." Except for coal and iron ore its stocks of raw material had almost all been entirely depleted; "most of its mines and factories had become dilapidated; agricultural land was exhausted through lack of essential fertilizers," and the long absence of all able-bodied men and most of the horses employable in war. The live-stock was decimated. "Food rations for two years past had been on a scale considerably below that required to maintain normal health."² In addition, the illegal blockade was, with superfluous cruelty, continued for nine months after the conclusion of the Armistice. This blockade was responsible for the deaths of 800,000 civilians.

¹ Cf. Arthur Dix, "Was Deutschland an seinen Kolonien verlor," Berlin, pp. 52 and 54.

² Quoted from H. W. V. Temperley's "A History of the Peace Conference of Paris," London, 1920, Vol. II. p. 51.

"The labour supply had been reduced not only by war losses, but by the cutting off of the annual influx of Poles and Russians, upon whom Germany relied for much of her agricultural work before the war. What remained had been seriously affected by several years of underfeeding and by the complete collapse of discipline which accompanied the Revolution."¹

If, further, it be recalled that the Rhine Province was exploited and tortured by a huge army of occupation, that almost every year foreign troops raided the diminished territory of the Reich and instigated riots, one can easily comprehend what obstacles would arise to the extortion of annual tribute from a nation subjected to such treatment.

In order to provide the enormous tribute of coal, the number of miners had to be increased by 138,000, their housing naturally involving vast difficulties.² With an excessively adverse trade balance, the extremely low standard of existence in Germany during the years following the Armistice could be maintained only in the following way: first, by the Reichsbank's sacrificing almost its entire reserves of gold; secondly, by the sale of securities and real property to foreigners; thirdly, and most particularly, by the introduction of foreign capital, which streamed in in huge volumes as a result of the gigantic speculation in paper marks. About a million foreigners took part in the movement, chiefly by purchasing marks in Germany, which were subsequently rendered valueless by the Franco-Belgian raid of the Ruhr. The report of the McKenna Committee computes the proceeds of these sources between 1919 and the close of 1923 at $1\frac{1}{2} + 1\frac{1}{2} + 7.6$ to 8.7 milliard gold marks, making a total of 10.6 to 11.7 milliards. On the other side, there was a debt of between 9 and 10 milliards, made up of the adverse trade balance and the cash Reparation payments; but the surplus of 1.6 to 1.7 milliards was an insignificant sum wherewith to meet the foreign liabilities of about 13 milliard gold marks handed down by the war.

¹ Quoted from H. W. V. Temperley's "A History of the Peace Conference of Paris," London, 1920, Vol. II. p. 51.

² In the district around Dortmund the persons engaged in mining totalled, in 1913, 397,000; in 1919, 388,000; in 1922, 526,000.

Two ways of obtaining "Reparation" were open to the Allies. They might either suck out of Germany all they could and then leave the country bled white to its fate; or they might provide the dismembered and exhausted country with food-stuffs and raw materials so as to enable it to recover, and then, by expanded exports, pay off the compensation demanded from it.¹ It was decided to attempt both methods. The cow, as Lloyd George said, was to supply both milk and beefsteaks.

The dictated peace demanded instalments between 1919 and May 1, 1921, to be paid in such manner as the Reparation Commission might fix, and amounting to 20,000,000,000 gold marks, in order to enable the victor States to proceed to the restoration of their industrial and economic life (Article 235). As shown above, the great sack of Germany during the two years immediately following the conclusion of peace sufficed to provide the Entente with that sum.

The German payments included large deliveries of coals and coal by-products, of dyestuffs, machinery, timber, etc. The idea was that these deliveries were to be made out of the annual output; but, at that time of the most dreadful diminution of national wealth and deep distress, they diverted the nation's energies from obtaining the essential food-stuffs by intensive cultivation of the soil or by the manufacture of exportable commodities.

Fixing the Reparation Liabilities and the Annual Tribute

The payment of the regular annual tribute was to commence on May 1, 1921. As to the amount, lively disputes took place at the numerous inter-Allied conferences which preceded the final resolution adopted in London in 1921. As at the Peace Conference, so again at these subsequent conferences, there were, indeed, men who realized that, as Signor Nitti had stated on May 9, 1920, "the economic restoration of the defeated peoples was in the interest of Europe as a whole." The outbreak of the international economic crisis in 1920 augmented the

¹ Cf. Temperley, *op. cit.*, Vol. II. p. 52.

number of those in the British business world who advocated moderation. The United States categorically refused to give credits for the rehabilitation of Europe until the Reparation question had been settled. A few French minds also awakened to the fact "that it was necessary to co-operate with Germany economically, if the danger of an early collapse of European civilization was to be averted."¹ But, again and again, these sensible views were stifled by the fear that, in ten or twenty years' time, a recuperated Germany might prove a dangerous adversary of a weakened France. Moreover, the French Government dreaded telling the taxpayers that France's financial distress could not be alleviated solely by means of the German payments. But France, holding the presidency in the Reparation Commission, exercised the chief influence in all its decisions; thanks to this, as well as to her inflexible will, her military supremacy and the legal skill of her delegates, she was able to get her way and keep Germany under her thumb.

Being unable to agree among themselves on the amount of tribute to be imposed, the Allies repeatedly called upon the German Government to state how much they could annually pay. The frequently very generous offers on the part of Germany were almost always made contingent upon certain conditions which the Powers were not willing to accept: Germany demanded, *e.g.*, the renunciation of further territorial concessions (Upper Silesia), the release of sequestered private property, the removal of barriers to her international trade. All German offers were rejected with scorn and frequently met by "sanctions." (Bergmann.)

So, with renewed threats of physical force, the German tribute was definitively fixed. By the first London ultimatum and the ensuing illegal occupation of the three approaches to the last coalfield still unoccupied by foreign troops, Germany was compelled to submit to the "Paris Resolutions" of January 29, 1921, which required in the first eleven years from May 1, 1921, annual payments

¹ Cf. Bergmann, "Der Weg der Reparation," Frankfurt, 1926, p. 73.

rising from 2 milliard to 6 milliard gold marks for a further thirty-one years, and, in addition, for the whole period, 12 per cent. of her entire export returns.¹

Simultaneously, a toll boundary was drawn between the occupied and unoccupied territory, which was continued from April 8 till October 1, 1921; while the British Government was empowered to levy upon German exports to Great Britain a duty calculated, at the same time, to act protectively in favour of British industry.

Under menace of an occupation of the Ruhr Basin itself, a second "London Ultimatum" (May 5th) demanded, first, the recognition of the Reparation indebtedness as fixed by the Reparation Commission on April 27 at 132 milliard gold marks, and, secondly, the acceptance of a new scheme of payment of a character somewhat milder than that of the "Paris Resolutions."

Germany was to hand over to the Reparation Commission 132 milliards of bonds subject to 5 per cent. interest and 1 per cent. sinking fund. But the Commission was to retain 82 milliards (C bonds) until the interest service of the first 50 milliards (A and B bonds) had been secured. For the interest and sinking fund of the latter, 2 milliard gold marks and 26 per cent. of the German export returns were to be paid over in place of the fixed sum of 3 milliards. Computed on the actual export returns, the total payment for the two years immediately succeeding the stabilization of the currency (1924-26) would have amounted to 3.7 to 4.26 and 4.54 milliard gold marks respectively; while, computed according to the absolutely uncertain estimates for 1923, 3.56 milliards might have resulted. In undismembered Germany the aggregate taxes of the Reich, the Federal States and the communes had yielded, in 1914, 4.4 milliards! For the first half-year, 1 milliard gold marks in cash was to be handed over as a fixed payment by August 1, 1921. In addition to this and in excess of the provisions of the Treaty of Versailles, Germany was to undertake the delivery of material and labour, not merely for the restoration of the devastated territories, but also for the promotion of the economic life of the Allied Powers, these deliveries to be credited to the annuities.

¹ The occupation of Duisberg, Ruhrort and Düsseldorf was illegal, if for no other reason, because Germany could not have been guilty of a delay in payments until May 1, 1921.

Although no one in Germany believed in the possibility of fulfilling these requirements, the ultimatum was accepted, but only by a small majority of the Reichstag under the new Chancellor, Herr Wirth, and only in dread of a Ruhr occupation and under the effects of the insurrection instigated in Upper Silesia by the French and Poles.

Germany was now liable, first, for an annual tribute which it soon became evident vastly surpassed her capacity to pay, and secondly, for a capital sum of 138 milliards, for only one-third (more exactly, 36.2 per cent.) of which these payments provided interest and sinking fund. The result was that, even if it were possible to provide the full annuity, the German debt would not only not be reduced, but would actually continue to increase. Here the Treaty of Versailles produced its most venomous fruit. The inclusion of the pensions in the debt to the Allies had the effect of dragging Germany deeper and deeper into the slough of indebtedness. All the sums which the Reparation Commission vouchsafed to place to her credit disappeared like rain upon a pond.

Thus the significance of the London Ultimatum lay in the eternalization of what Harold G. Moulton rightly calls Germany's "economic bondage." The Dawes Plan has not altered one single hinge or screw of the finely constructed mechanism of that invention.

The Fulfilment Policy

Associated with Chancellor Wirth, and his most intimate adviser in all financial and foreign questions, was Walter Rathenau, who at first held the portfolio as Minister for Reconstruction. Both these politicians were resolved upon doing everything possible to fulfil the demands of the London Ultimatum. "I regard them," said Rathenau, "as performable only if we are resolved to steep ourselves in the deepest distress. That is the whole point. . . . There is no absolute imperformability, for it

is solely a question of the depth of distress into which we may allow a nation to be plunged.”¹

The continually repeated offer made by Germany to participate in the reconstruction of the devastated districts by sending thither workpeople of her own was as continually rejected by the French. Everything was now done to place materials at disposal for the purpose. A number of agreements facilitated the delivery of commodities and substantially extended the relative obligations imposed upon Germany. Besides the “compulsory deliveries” of coal, chemicals, etc., there were now introduced, in place of the deliveries, “for the physical restoration of the devastated districts,” “free” deliveries not provided for in the Treaty of Versailles, these deliveries being effected by means of an unrestricted procedure of order and supply on the part of private persons. The prices arranged by these persons were subject to scrutiny by arbitrators; they were paid for by the German Government and credited to it by the Reparation Commission. But dread of German competition prevented the deliveries from attaining the volume anticipated. In part openly, in part covertly, France failed to take delivery. She demanded, before all things, hard cash. But the impossibility of Germany meeting demands for money with her own funds became drastically evident when the milliard in cash referred to above fell due for payment in August, 1921. In October, 1918, the exchange rate of the mark in New York averaged 63·6 per cent. of its value; in December it had fallen to 51 per cent.; on the conclusion of the peace negotiations in June, 1919, it stood at 30 per cent. The great sack of Germany, coupled with a chaotic financial policy, drove the rate down to about 7 per cent. by January, 1920. This figure was maintained until the London Ultimatum was issued in May, 1921. The necessity for borrowing and handing over, in three months, a gigantic amount of foreign exchange by means of short loans caused the price of the mark to sink, by September, to 4·02 per cent.

¹ Rathenau, speaking in the Reichstag at the beginning of June, 1921.

The German politicians in favour of fulfilment originally hoped to be able, out of home resources, to provide at least the first annuities and, with the help of foreign credits, to make the requisite transfers. Their hopes were based upon the conviction that the troops occupying the Ruhr approaches would be withdrawn and that, in pursuance of the plebiscite, Upper Silesia would be left to Germany. Neither expectation was fulfilled. In virtue of the false verdict of Geneva, the Conference of Ambassadors of October 21, 1921, severed from Germany much the more valuable part of the Upper Silesian industrial area, a proceeding whose detrimental effects upon German industry were exaggerated by the absolutely senseless character of the frontier delimitation. In the main the Geneva Tribunal recognized as just the frontier which had been occupied by the hostile troops during the third Upper Silesian insurrection. In December, 1921, the German Chancellor was forced to apply for the first postponement of payment, adding that, in reply to a request sent by the President of the Reichsbank, the Bank of England had stated it to be impossible for Germany to obtain either a long-term loan or a short bank credit in Great Britain so long as the London Scheme of Payment was in force.¹ In December the mark fell to 2·26 per cent., and after a short interval found itself on a continually shelving plane. The collapse of the German currency adversely affected all European countries. Above all, it fostered a fatalistic feeling that no effort of any kind could possibly satisfy the demands of Germany's enemies. Desperation and mental suffering paralyzed political endeavour, and led to a terrible epidemic of crime, which culminated in the assassination of Walter Rathenau on June 24, 1922.

The impossibility of carrying out the London scheme, coupled with an international economic crisis, led to differences between Great Britain and France. These became acute in 1923. Then the United States appeared upon the scene of action.

¹ Bergmann, *op cit.*, p. 33.

Differences among the Allied and Associated Powers

Each of the three world Powers held a different opinion in regard to the inter-governmental debts.

Early in 1922 there had arisen in Great Britain the idea of cancelling them with the object of at last arriving at real peace and providing Europe with a reliable chance of general recovery. Even during the premiership of Mr. Lloyd George, this policy was adopted as the Government programme. Such a policy could only mean that the Prime Minister had thrown overboard the views hitherto advocated by him in the Reparation question. What had induced him to do so, it is difficult to say. People may incline to the notion that he was influenced in the new direction by America's threatened collection of her outstanding claims. On the other hand, it is important to remember that—quite apart from the Russian debt—Britain's claims for war debts, mainly caused by her having gone surety for the other Allies, exceeded her debts to the United States.

Hence it may be said, with a considerable show of reason, that the British proposal signified a resurgence of the idea of world-wide responsibility which, at the height of British prosperity and power after the Napoleonic wars, was born of the consciousness that only by the assumption of such responsibility could the union of political with capitalistic domination be made tolerable for the masses of the subjected and dependent peoples. But this grand idea foundered upon the rock of French and American opposition.

On January 13, 1922, M. Poincaré succeeded M. Briand as Minister President. This narrow-minded but strong-willed man saw, in all difficulties, nothing but German bad faith; and the speech in which he put forward his political programme indicated clearly his intention to exert force in order to get possession of productive pledges and to institute financial control over Germany. In the course of the year, his menaces of an occupation of the

Ruhr Basin, if Germany continued in default, became more and more ominous.

Then a committee on the foreign debts arising out of the World War was appointed in the United States under a statute of February 9, 1922. Its terms of reference were to achieve by means of separate negotiations with the various debtor States the strict fulfilment of the original obligations. Those States were requested by the United States Government to take the steps necessary for funding their debts.¹

As a consequence, on August 1, 1922, the British Secretary for Foreign Affairs, Lord Balfour, addressed a note to Great Britain's debtors in which he stated "the policy favoured by His Majesty's Government" to be "that of surrendering their share of German reparation, and writing off, through one great transaction, the whole body of inter-Allied indebtedness. But," he added, "if this be found impossible of accomplishment, we wish it to be understood that we do not in any event desire to make a profit out of any less satisfactory arrangement. In no circumstances do we propose to ask more from our debtors than is necessary to pay to our creditors. And, while we do not ask for more, all will admit that we can hardly be content with less."

In the course of his arguments, Lord Balfour stated that :

"To generous minds it can never be agreeable, although for reasons of State it may perhaps be necessary to regard the monetary aspect of this great event as a thing apart, to be torn from its historical setting and treated as no more than any ordinary commercial dealing between traders who borrow and capitalists who lend. There are, moreover, reasons of a different order . . . which increase the distaste with which His Majesty's Government adopt so fundamental an alteration in the method of dealing with loans to Allies. The economic ills from which the world is suffering are due to many causes, moral and material, which are quite outside the scope of this despatch. But among them must certainly be reckoned the weight of international indebtedness, with all its unhappy effects upon credit and exchange, upon national

¹ Cf. Moulton and Pasvolsky, "World War Debts Settlements," London, 1927, p. 417.

production and international trade. The peoples of all countries long for a speedy return to the normal. But how can the normal be reached while conditions so abnormal are permitted to prevail?"

The note concludes by repeating that so deeply are the British Government

"convinced of the economic injury inflicted on the world by the existing state of things, that this country would be prepared to abandon all further right to German reparations and all claims to repayment by Allies, provided that the renunciation formed part of a general plan by which this great problem could be dealt with as a whole and find a satisfactory solution. A general settlement would, in their view, be of more value to mankind than any gains that could accrue even from the most successful enforcement of legal obligations."

Poincaré replied that Germany must first pay her Reparation liabilities; not until then could the question of the inter-Allied debts be discussed, and a thorough scrutiny made of the amounts credited and of their bases. He considered it neither admissible nor moral for any of the Allies to remind the others of the debts owing to them.

The Raid of the Ruhr

Every effort of the German Government to fulfil their resolution in regard to the London Scheme of Payment failed. A resolution—which had cost the life of Walter Rathenau—could not be kept without foreign help in the shape of credits; and that foreign help was unobtainable under such a scheme.¹ But all the endeavours of the British and German Governments to bring about an equitable arrangement of the Reparation burden foundered upon the opposition of Poincaré.² So, too, did the proposals made at the various international conferences

¹ Cf. p. 32, *supra*.

² On the question of the abortive negotiations which, in August 1922, took place in London between Lloyd George, Poincaré and the delegates of Italy, Japan and Belgium, cf. "Europe Nouvelle," fifth year's publication, No. 33, August 19, 1922, pp. 1046 *et seq.*

of experts. With the same tenacity he had displayed in urging the outbreak of war, he now urged the invasion of the Ruhr. For him the great goal was political advantage. He believed the time ripe for realizing the scheme which had broken down at Versailles in consequence of the opposition of Great Britain and the United States, namely, the creation of a "Rhenish Republic" under a French military protectorate.¹ The disarmament of the right Rhine bank was an allurements in this direction, while slight defaults in the deliveries provided the desired pretext for subjecting to French domination the last large coalfield left in German possession, and thus rendering mutilated Germany permanently incapable of existence. The chief aim was to reunite the ownership of the Lorraine *minette* and the Ruhr coal which had so essentially assisted in promoting German prosperity after 1871; but this time they were to be incorporated in the French economic system, and were to be controlled by new industrialists, namely, by the owners of the "liquidated" iron works of Lorraine. Against the vote of its British member, the compliant Reparation Commission established "voluntary default by Germany in delivering wood and coal,"² and, on January 11, 1923, French and Belgian

¹ The Paris newspaper *Populaire* reported on June 26, 1922, a confidential interview with French Press correspondents, in which Poincaré said:

"We are driving towards the permanent occupation of the left bank of the Rhine, and I am glad we are doing so. So far as I am concerned, it would pain me if Germany were to pay; then we should have to evacuate the Rhineland, and we should thus lose the benefit of the experiment which we made in order, peaceably but weapon in hand, to conquer the population on the bank of the frontier river. What do you regard as better, the encashment of money or the acquisition of new territory? I, for my part, prefer the occupation and the conquest to the money and the reparations. Hence, you will comprehend why we need a powerful army and vigilant patriotism; you will comprehend that the sole means of saving the Treaty of Versailles is to arrange matters in such a way that our defeated enemies cannot fulfil its conditions."

² The British delegate characterized the arrears of wood as "almost microscopic." The deficit of coal (about 10 per cent.) had, for months, been tacitly tolerated by the Reparation Commission with the consciousness that its demands (1.7 million tons a month) were on the very verge of what was at all possible. (Cf. Bergmann, *op. cit.*, p. 220.)

troops, in full equipment, crossed the boundary of the then occupied territory. Very soon the whole Rhineland—including the Ruhr Basin—was cut off from the rest of Germany by customs frontiers and export prohibitions. By the end of July these foreign troops had killed 121 civilians and had expelled from hearth and home no fewer than 107,412. This sturdy population refused to work under a foreign lash. The raiders saw themselves forced to remove existing stocks, to plunder the tills both of the State and of the inhabitants, to fell Rhenish timber and to seize the public revenues.

Victory of the Rhenish People over the Separatists

As early as 1919 the French had endeavoured to create an organization for severing the Rhineland from Germany, but they failed to win over any Rhenish personalities of any standing. In view of the reserve of the Belgians and the express disapproval of America, they did not dare to put down by official action the opposition shown by the inhabitants to the Separatists. Consequently the insurrections of Speyer and Wiesbaden came to nothing (June 1, 1919).¹ Equally unsuccessful was the Gallicizing propaganda which, in the following years, aimed at enlisting more valuable supporters of a westward orientation among the Rhenish population.² But 1923 seemed destined to undermine more effectively the loyalty of the Rhineland to the Reich. "Passive resistance" had involved the closing down of such a number of factories that, in many places, half the population was out of work. To assist these unemployed, Germany was forced to increase her paper currency to such a degree that a fantastic and hitherto unknown devaluation ensued which plunged the population of the entire Reich into the most terrible misery and drove the masses into the arms of the

¹ Max Springer, "Loslösungsbestrebungen am Rhein (1918-24)," pp. 6 *et seq.*

² Kaden-Springer, "Der politische Charakter der französischen Kulturpropaganda am Rhein," Berlin, 1923.

wildest centrifugal radicalism. The German Government appeared incapable of rendering the occupied territories any further help. The leaders of the Rhenish folk were, in many cases, expelled; in many other cases they were prevented by the suppression of free speech—both oral and written—from communicating with each other and with their brethren across the new and unnatural boundary. The inevitable result was mutual misapprehension and distrust.¹ Upon the physically and psychically exhausted inhabitants the French let loose an armed rabble, consisting chiefly of rogues foreign to the soil, who seized possession of the public buildings and blackmailed the villages.² This revealed, in a remarkable way, the wonderful moral strength of the Rhenish-Westphalian population and the innate weakness of the French policy. As soon as the struggle in the Ruhr and the Rhine began, all parties disappeared. The inhabitants, one and all, closed their ranks in solid and stolid resistance of the unrighteous oppression of the foreigner. Wherever, too, the Separatists failed to receive the armed protection of the foreign troops, they were lashed out of the offices they had seized, whether in Bonn or in Aix-la-Chapelle, in Lautecken (22nd and 23rd January, 1924) or in Pirmasens (12th February, 1924) or in Dürkheim. In an encounter near Ägidienberg in Sieben-Gebirge the farmers of the Westerwald slew a large number of the robbers with cudgels and axes and drove to flight the remainder.³ On account of their British allies,⁴ the Belgians and French were forced to maintain at least a vestige of pseudo-neutrality; the British, in point of fact, refused the French mercenaries all access to Cologne, whose fall was essential to any apparently voluntary separation of the Rhineland from the Reich. On January 10, 1923, the President of the United States, in disapproval of the Franco-Belgian procedure, recalled the American troops from the Rhine. Thus the sordid enterprise—an offspring of the crafty and

¹ Walter Kamper, "Die Rheinlandskrise des Herbstes, 1923. Ein politischer Überblick," Frankfurt a. M., 1925, pp. 19 *et. seq.*

² Max Springer, *op. cit.*, p. 105.

³ *Idem*, *op. cit.*, pp. 105, 129.

⁴ *Idem*, *op. cit.*, p. 53.

cunning tactics of the French—ended in complete failure;¹ indeed, it had an effect just the reverse of what its initiators had hoped for.

German Currency and Financial Reform

Just as the French policy of force gave an impulse to German national feeling in the Rhine districts, so the sanguinary suppression of the Separatist movement by the Rhenish people, coupled with the news of Schlager's heroic death, aroused throughout Germany a fresh and hopeful resolve to maintain the integrity of the Reich. The "Rentenmark wonder" was fundamentally an outcome of revived belief in State and nation. By the co-operation of German industries of every kind it proved possible, in November 1923, to establish the Renten Bank and thus, despite prevailing theories and solely with the aid of general national confidence, and without any foreign capital, to stabilize the billionfold devalued paper mark. This currency was made exchangeable for renten mark notes, which soon acquired gold value on the international money market.² The note-printing press was stopped, and any misuse of the currency for fiscal purposes became impossible. By the exercise of rigorous energy, Herr Luther, who during the Ruhr struggle had proved his worth as burgomaster of Essen and was now Minister of Finance, restored the equilibrium of the national budget—though it must be remembered that the "Micum" pacts removed, for the present, the burden of reparations. In this way the first essential for the rehabilitation of the German economy was created, and that almost exaggerated confidence in the industrial capacity of the German people was awakened abroad which made itself so apparent in the discussions of the Experts Committees under Mr. Dawes and Mr. McKenna.

¹ Walter Kamper, *op. cit.*, p. 109.

² The face values of the *rentenpfandbriefe* guaranteeing the Rentenmark, together with the interest thereon, were payable at London gold quotations.

Appointment of the Dawes Committee

Albeit Poincaré's destructive intentions were balked, still his firm determination gained an objective success, inasmuch as the Dawes Scheme received its character mainly through the pressure exercised by the Ruhr occupation. Great Britain, it is true, quoting the judgments of her best lawyers, had repeatedly urged the illegality of that occupation; but she was neither able nor willing to oppose force to force. Only in virtue of the Dawes Agreement of August, 1924, did the gradual evacuation commence. That agreement came about as a result of the intervention of the United States and under pressure of the world's public opinion.

The raid of the French and Belgians had caused the most terrible inflation known to history and had completely destroyed Germany's power of purchasing abroad. But it now became evident that the destruction of one important member of the world's economy involves the whole organism in distress. As the British Prime Minister said, the invasion of the Ruhr has acted "as if you inserted the blade of your penknife into the works of a watch." That invasion put out of joint the entire economic system of Europe,¹ and brought to a crisis the agrarian depression already existing throughout the whole temperate zone (cf. Appendix). The expulsion of 25,000 Americans from their farms was the work of Poincaré. The distress of the farmers intensified the depression in the manufacturing industry, and the currency confusion in Europe threatened capitalists great and small with loss. About one-half of the world's gold had become concentrated in the Federal Treasury and the Federal Reserve Banks of the United States. The credit possibilities inherent in these possessions could not be exploited without a renewal of the recently surmounted war inflation. If, however, by adequate financial assistance, it proved possible to

¹ Cf., for further particulars, "Ruhrbesetzung und Weltwirtschaft," edited by Professor Ernst Schultze, Leipzig, 1927.

restore order in the various national currencies and to re-establish them on a gold basis, and if, in addition, a portion of the nation's savings of no less than 10 milliard dollars could be mobilized as long-term credits, the principal holder of the gold would not merely be safeguarded against losses, but might also hope, in its own interests, to revive the purchasing power of Europe and thus prevent the decay of American agriculture.

In consequence, there matured the determination to renounce the policy of neglecting Europe. Instead, it was decided, while avoiding political intervention and without making use of Government officials, to participate unofficially in the economic activities of Europe through American "experts" and "private citizens."¹ The visible turning-point in the policy adopted by America towards Europe is to be found in the speech delivered at New Haven by State Secretary Hughes on December 29, 1922, that is, shortly before the Ruhr raid. He proposed an international conference of experts, in order to arrive at a solution of the Reparation problem by first assessing the extent of Germany's capacity to pay, and then drafting a fresh financial scheme. The American proposal was taken up by the British Government and formally laid before the French and American Governments in the notes addressed to them by Lord Curzon on August 11, 1923, and October 12, 1923, respectively. In view of the political and financial failure of the Ruhr occupation and the continued collapse of the French currency, Poincaré found himself forced to concur, with certain reservations, in this scheme (November 12, 1923), Italy, Belgium and Germany having previously declared their approval of the idea.

¹ Cf. H. F. Simon, *op. cit.*, p. 171, and the utterances of American authors there quoted.

CHAPTER III

THE WORK OF THE DAWES COMMITTEE

THE Reparation Commission appointed two committees. One of them, under the chairmanship of Mr. Reginald McKenna, was to estimate the amount of German capital exported during the inflation and to propose means whereby it might be brought back. The report of the McKenna Committee dispelled the fable about the enormous accumulations of German capital abroad and shed light upon the means which served to restore Germany's balance of payments after the war.¹

The labours of the other Committee of Experts, under the chairmanship of General Charles G. Dawes, gave birth to the London Agreement of August 30, 1924. The experts met for the first time at Paris on January 14, 1924; they presented their report on April 9, 1924; in less than three months they had accomplished what the negotiations of the Allied statesmen had failed to accomplish in five years, namely, an agreement concerning the Reparation programme; they helped to establish firmly the maxim that a policy which paralyzes the productivity of a debtor recoils upon the head of the creditor; they proved, as Mr. Hughes said that "there can be no economic recuperation in Europe unless Germany recuperates," and that the main premise for such recuperation is the restoration of the fiscal and economic unity of Germany. The adoption of the Dawes Scheme awakened throughout the world hopes of a peaceful and undisturbed development of Europe. It restored German credit, rendered Germany once more capable of purchasing abroad, and gave a fresh impulse to international commerce.

¹ Cf. *supra*, p. 34.

But, in return for the economic pacification provided by the Dawes Agreement, Germany had to submit to restrictions of her sovereignty far in excess of those imposed at Versailles. Yet the offered solution of the Reparation problem was not regarded by those who proposed it as definitive; indeed, they distinctly stated that their scheme could not provide a definitive solution.

Political Limitations of the Experts' Terms of Reference

To appreciate properly the purport and character of the work done by the experts it is essential to realize the political conditions under which they met and the limitations placed upon their activities. On the one side stood the defenceless German people, aroused indeed to consciousness by the injustice and misery inflicted upon it, but rendered impotent by a hostile State who had gained complete control of its economic system. On the other side stood the three Great Powers, whose divergent views on the problem of German tribute had been stated in the notes exchanged in 1923.

In pursuance of the policy of the Balfour note,¹ Lord Curzon, the Secretary of State for Foreign Affairs in the Conservative British Cabinet, repeated on August 11, 1923, Great Britain's willingness to reduce her claims against the Allies and Germany to the amount of her capitalized debt to the United States (14,500,000,000 marks) and to cancel as much of the Allies' debts to her as she should receive in payment of this amount from Germany. In his telegram of October 12, 1923, Lord Curzon requested the United States to co-operate in convening a conference of experts, because, without American assistance, Europe could not surmount her difficulties. He stressed the fact that America was "directly and vitally concerned with the solution of the European problem, if for no other reason, because in it is involved the question of the inter-Allied debt."

¹ Cf. *supra*, pp. 42, 43.

Although, in his reply of October 15, 1923, Mr. Hughes expressed his general concurrence with Lord Curzon's views, he emphasized three points to which he had called attention in his speech of December, 1922, already quoted. First, he stated that "the Government of the United States has no desire to see Germany relieved of her responsibility for the war or of her just obligations," but "regard must be had to the capacity of Germany to pay and to the fundamental condition of Germany's recuperation, without which reparation payments" would "be impossible." Secondly, such a conference should be advisory only. Thirdly, Mr. Hughes declined to recognize any interdependency between the Reparation problem and the indebtedness of the Allies to America. Congress, he added, had withheld from the Administration the discretionary powers desired by it for disposing of the debts, and had placed definite restrictions as to refunding upon the Commission recently appointed to deal with the inter-Allied debts. Nevertheless, the Secretary of State recognized the economic interest of the United States in Germany's Reparation payments by stating that the debtors' "condition and capacity to pay cannot be properly determined until the amount that can be realized on these credits for Reparations has been determined." Accordingly, in regard to the Reparation question, the United States adopted in principle the same standpoint as that of France. All it desired was a different method of encashment; instead of the military enforcement of payments in kind it wanted an economico-financial settlement by a system similar to that which the Americans had developed in such a masterly manner in the tropical States of Central and South America. This, then, is the purport of the statement: the matter was not to be treated as a political problem but as a purely economic one.

We are familiar with the reasons why M. Poincaré was no longer disinclined to agree to the American method, provided only that adequate compensation were given for his relinquishing his hold upon the Ruhr. But as to

the task to be entrusted to the experts there existed wide divergencies of opinion. Mr. State Secretary Hughes demanded "a final and accepted basis for the fulfilment of the Reparation claims." . . . "It is idle to arrange any economic structure in Europe till this foundation has been laid."

The British Government also wanted Germany's capacity to pay and the amount of her liability to be definitively determined. This was sharply opposed by Poincaré. He stipulated that only the present capacity of Germany to pay be inquired into. In order to maintain his dogma that "the Treaty must be fulfilled" and that "the question of Germany's war guilt must not be tampered with," he put forward such formal arguments as that even the Reparation Commission requires unanimity for granting any postponement of payments beyond the year 1930.¹ The United States Government, declaring the activities of the experts to be useless, and, indeed, injurious, if limited in such a manner, declined to appoint American collaborators. Accordingly, it appeared in November, 1923, as though nothing would come of the whole scheme.

But the Reparation Commission now took up the matter in a way which paid due consideration to Poincaré's objections. This turn in events resulted from the following facts :—On October 24, 1923, the German Government requested that, in conformity with Article 234 of the Treaty of Versailles, an inquiry be made into "the resources and capacity of Germany and . . . her representatives given an opportunity of being heard." The Reparation Commission considered the German suggestion, gave a hearing to the German Permanent Under-Secretary of State, Herr Fischer, and, on November 30, passed the resolution which formulated the terms of reference to be submitted to the Expert Commissions. That resolution ran thus :—

"In order to consider, in accordance with the provisions of Article 234 of the Treaty of Versailles, the resources and capacity

¹ Bergmann, *op. cit.*, p. 272.

of Germany, and after giving her representatives a just opportunity to be heard, the Reparation Commission decided to create two Committees of experts belonging to the Allied and Associated countries. One of these Committees would be entrusted with considering the means of balancing the budget, and the measures to be taken to stabilize the currency. The other would consider the means of estimating the amount of exported capital and of bringing it back into Germany."

Thus, in drawing up their resolution, which received the assent of the principal Powers (including the United States), the Commission relegated the question of considering the resources and capacity of Germany to its introductory and argumental portion; whereas the instructional portion, which contained the actual terms of reference, was made to cover, for the one Committee, only "the means of balancing the budget and the measures to be taken to stabilize the currency," and, for the other, "the means of estimating the amount of exported capital and bringing it back into Germany." The argumental portion makes direct reference to Article 234, which gives the Reparation Commission the right to make inquiries "from time to time," "to extend the date and to modify the form of payments," but "not to cancel any part, except with the specific authority of the several Governments represented upon the Commission." Poincaré had got his way; the definitive fixation of Germany's capacity to pay and of the payments to be demanded was precluded from the terms of reference submitted to the Experts.

Exclusion of Germany from the Deliberations

So, too, nothing had come of the British proposal that neutral and German experts should co-operate in the committees. In pursuance of Wilson's policy and with the desire to mediate between Great Britain and France, Mr. Hughes had, throughout, regarded the conference solely as an affair of the principal Powers allied in the war against Germany. Since, in the end, the conference had

been summoned by the Reparation Commission, it was obvious that the Germans could not take part; for that Commission is nothing but a tribunal of the creditor Powers appointed to exact as much as possible from the debtor. True, the Dawes Committee heard numerous Germans in Paris, and, during the fortnight that it spent in Berlin, it got into touch with various German authorities and associations; but it is one thing to hear the evidence of experts and quite another to deliberate with them on an equal footing round the council table. The German Government was only invited to the closing discussions in London, the reason then being that a number of details involved an alteration in the Treaty of Versailles, and particularly the appointment of foreign supervisory bodies, and that Germany had to undertake to pass laws "in the form approved by the Reparation Commission."

The two questions on which the first Committee had to deliberate were substantially solved when they began their task: the currency was stabilized and the budget had been balanced.¹ Nevertheless, recognizing that the otherwise highly successful Rentenmark was not very suitable as an international medium of payment, the experts replaced it by the Reichsmark on a purely gold basis, and substituted Reichsbank notes for Rentenmark notes. The gold required as security was obtained by an international 7 per cent. loan of 800 million gold marks issued at 92 per cent. (or, deducting bank commission, 87½ per cent. in Europe and 87 per cent. in North America), the loan being unfortunately irredeemable and inconvertible. Since that time the gold reserves of the Reichsbanks have accumulated to almost two milliard marks. The greater part of this gold was obtained in New York.

The tribute paid by Germany is deposited with the Reichsbank for account of the Agent-General and transferred abroad with the assistance of the bank, but in such a manner that the bank's solvency is not jeopardized and the stability of the currency is not disturbed.

¹ Cf. *supra*, p. 47.

On the introduction of the Rentenmark, the Reichsbank, as the guardian of the currency, was rendered independent of the Government financial administration. A strict fiscal policy, with severe taxation and stringent restriction of expenditure, had strengthened the budget to such a degree that, from January, 1924, onwards, receipts exceeded expenditure, and the Treasury was able, by the end of May, 1924, to redeem the whole of the gold loan of 1923 and to repurchase the major part of the emergency money (625 millions). The experts were bound to form a high opinion of the capacity of a country which, despite its loss of all sources of income from the occupied territory, had so rapidly arranged its disordered finances and commenced immediately such an extensive repayment of its debts.¹

But the equilibrium of a country's budget and the stability of its currency can be maintained only if its financial burdens are defined for a long period. Adopting this argument and giving no over-anxious consideration to the time limits demanded by Poincaré in the preliminary negotiations, the experts undertook to prepare the way, at least, for a settlement of the hotly debated Reparation problem, even if they could not find an immediate solution.

The Motives of the Experts

It is not altogether easy to determine the underlying motives which guided the experts in their attempt. Even the diary-like notes of Rufus Dawes, who accompanied his brother to Paris and Berlin as chief of a staff of eight American experts, throw only an uncertain light upon their final purposes.² The Dawes Commission consisted of a number of exceptionally clever and experienced men, who—as they repeatedly emphasized—regarded as their chief aim the restoration of economic peace in the interests of the whole civilized world.

¹ Bergmann, *op. cit.*, p. 283.

² Rufus C. Dawes, "The Dawes Plan in the Making," Indianapolis, 1925.

Their report—a masterpiece of style—is primarily intended to allay the strife existing among the Allies; but it also endeavours to induce the Germans to view the material and moral efforts demanded of them as a price worth paying for the removal of the Reparation problem from the poisonous atmosphere of political and military hatred. Albeit the report of the experts stresses the economic and technical aspects of their task and assures us that they approached it solely as business men, their ideas were, after all, largely determined by political considerations. They themselves admit that “political considerations necessarily set certain limits within which a solution must be found if it is to have any chance of acceptance.” In these circumstances the powerful position of the French and the interests of the victor States were bound to weigh heavier than the interests of a people which would be involved in hopeless misery “if it rejected the proposals.”¹

The experts speak repeatedly of justice and fairness. They always mean thereby the maxims of the compulsory Peace of Versailles. “The Treaty of Versailles is our charter, as it will be yours, and it is within the framework of that treaty, under Article 234, that you will pursue your inquiry in full independence and with signal impartiality.” With these words Mons. Barthou, the President of the Reparation Commission, opened the first meeting of the Committee.² Not only were the members of that Committee formally bound by the principles of Versailles; on the contrary, inasmuch as they believed Germany to be responsible for the war, they regarded those maxims as “moral.”

“Having agreed that Germany ought to bear equally with its creditors the burdens of reconstruction and that as nearly as could be determined she ought to be taxed as heavily as the nations which accepted her challenge and defeated her purpose, they have avoided the fixing of Germany’s ultimate burden and have not

¹ Letter addressed by General Dawes to the Reparation Commission on April 9, 1924.

² Quoted by Rufus C. Dawes, *op. cit.*, p. 41.

even discussed it as a subject-matter within their province. The settlement of this rests with Powers signatory to the Treaty.”¹

Thus the Dawes Committee held the same mistaken views as did the majority of the civilized world at the time, notwithstanding the publications of Russian and Belgian records which proved the untenability of such a standpoint. Doubtless they would have looked at the matter with different eyes if the publication of the documents of the German Foreign Office had then been complete and the works of such impartial historians as Sidney B. Fay, William L. Langer, Charles Austin Beard and Harry Elmer Barnes had had sufficient time to exert a fuller influence. But, as things stood, the experts did not inquire what the Germans had, prior to the “Treaty,” undertaken to pay, nor what they had already paid. Nay, though many of them may have felt the Ruhr Occupation to be a crying shame, still they treated it as a political fact and were prepared to make great concessions to get it withdrawn.

The most important compensation conceded for the renunciation of this illegal status was a system of control which amply satiated the French lust for power. Like the Dawes Scheme itself, the curtailment of sovereignty required of Germany proceeded upon an offer made by the German Government in May and June, 1923, the purpose of which was to loosen the stranglehold of foreign fingers. In its dire need the country, regardless of the indemnity already paid, had tendered a reparation totalling 30 milliard marks and, as security for the payment, had offered the following:—(1) the detachment of the railway system of the Reich from the general budget and the issue of obligations, constituting a first charge on its earnings, in the sum of ten billion gold marks and bearing 5 per cent. interest; (2) to secure the payment of a further annual amount of 500 million marks by a direct mortgage on the entire natural resources, industry, and real estate; and (3) a pledge of customs duties and the

¹ Rufus C. Dawes, *op. cit.*, p. 132.

most important excise taxes, the annual return from which was estimated at 800 million marks.

This indicated a feasible economic and political equivalent for the security which had been illegally seized on the right bank of the Rhine.¹

(A) *Productive Pledges in Germany and the System of Control*

Under the London Agreement, the burden imposed upon the railways and industry is detached from the German fiscal system. The most valuable piece of property owned by the German people, namely, the German railway system, though remaining in the ownership of the Reich, passes under the administration of a company whose prime task is to transfer to the tribute receivers the net profits earned by the undertaking. The interest and amortization service of the bonds is secured by a mortgage on the entire movable (rolling stock, etc.) and immovable property of the German railways.

Moreover, all industrial enterprises (including mines, shipping companies and private railway undertakings) with a working capital of 50,000 marks or upwards are subjected to a public mortgage. But, in order to obtain the requisite sums of money to meet all these burdens, the German Legislature had been obliged to impose corresponding taxation upon public undertakings, upon trading and banking concerns and upon smaller industrial enterprises with a working capital of not less than 20,000 marks.

Further, the customs and the four most lucrative excises (on beer, alcohol, tobacco and sugar) are also mortgaged.

Bonds of the face value of 11 milliards have been issued on the railways, and of 5 milliards on the other industrial undertakings, the interest being 5 per cent. per annum plus 1 per cent. for sinking fund. These bonds are to be

¹ Rufus C. Dawes, *op. cit.*, p. 33.

handed over to trustees of the Reparation Commission, who are entitled to sell them.

The report suggests capitalizing the proceeds of the transport tax and of the assigned revenues by the issue of bonds. In this way the public tribute would become a private debt. Not, however, until the sale of the bonds has been effected do the private holders of those bonds take the place of the tribute receivers. But, for reasons still to be discussed, neither the railway bonds nor the industrial bonds¹ have yet been put into circulation.

The hypothecation of property, whether public or private, as a guarantee for public loans had not occurred in Western Europe since the days of Napoleon.² After the close of a victorious campaign, Prussia, in 1818, mortgaged with Rothschild's Bank in London a number of domains in return for a loan of five million pounds.³ This was the final appearance of a usage current in the early centuries of the modern State system—a usage under which princes gave a lien upon towns and lands. The Prussian Domain Lien, like the later hypothecation of the Austrian salt works as guarantee for part of the floating debt, meant simply the segregation of certain State revenues for the purposes of loan service.⁴

The vast development of traffic and capitalism in the

¹ Of the 5 milliards of industrial bonds, the trustee can sell bonds of the largest concerns (with a combined taxation burden of 1.5 milliards) to the value of 500 millions, but the bonds of any particular concern to only half the value of the taxation of that concern. Consequently, only half of the 1.5 milliards is commercializable; and of this 750 millions, only 500 millions can actually be sold. The balance, as well as all the other individual bonds, serve as security for the 5 milliards of industrial bonds to be issued by the new Bank for Industrial Obligations, of which bonds 4.25 milliards have been handed over to the trustee.

² Gaston Jèze, *Cours de Science des Finances et de Législation Financière Française*, 6^{me} éd., "La Technique du Crédit Public," pp. 327 *et seq.*

³ O. Schwartz and G. Strutz, "Der Staatshaushalt und die Finanzen Preussens," Vol. III. (Bln. 1904), p. 11.

⁴ A. Wagner, "Die Ordnung der Finanzwirtschaft und der öffentliche Kredite," in Schönberg's *Handbuch der Politischen Oekonomie*, 2 Aufl., Bd. III., Tübingen, 1885, S. 519.

nineteenth century rendered such stipulations superfluous in the well-organized States of Central and Western Europe; generally, too, they had come to be considered irreconcilable with national sovereignty. Save in connection with the Portuguese Tobacco Co.,¹ founded by Portuguese and French banks in 1891, Europe had resorted to the hypothecation of State revenues only in territories which were or had been Turkish.

In these territories the levying of public revenues by private persons (tax farmers) was well known. Such countries had no trained Civil Service. In 1895 and 1902 respectively, Serbia and Bulgaria were obliged to pledge their revenues as security for their Debt Service and to admit foreigners to control them in the interests of *private* creditors.² But the best known example of such control is to be found in the case of Turkey herself, whose *Dette Publique Ottomane* is often quoted as analogous to the case of Germany. This is a mistaken notion: Turkey has always successfully combated any attempt at control by foreign States. It is true that the revenues which she pledged to her creditors were administered by a commission of those creditors; but the commission did not, by any means, consist solely of foreigners and exercised no control over the rest of the revenues. The sovereignty of the Sultan remained intact. The budget of the Council of the Public Debt required endorsement by the Turkish Government; and the Turkish Government examined its statements of account.³

The case of Germany was not concerned with the security of a loan but of a war indemnity, since the 800 million gold marks provided by foreign capitalists as a contribution to the first annuity is of slight import

¹ Wuarin, "Essai sur les emprunts d'États et la protection des droits des porteurs de fonds d'États étrangers," Paris (1907), pp. 50-52.

² Wuarin, *op. cit.*, pp. 52, 216 ff.

³ Wuarin, *op. cit.*, pp. 176-186; Mejdert, "Die Staatsschulden der Türkei und die Verwaltung der Dette Publique Ottomane" (Berliner Dissertation), 1927.

as compared with the total political debt imposed upon Germany. As there exists no Civil Service in the world more capable and reliable than that of Germany, no further security was requisite to guarantee the loan. As guarantee for the gigantic war indemnity, the districts west of the Rhine are under military occupation, and the Rhineland Commission exercises a severe control over the freedom of movement both of the State and of the population. If the idea had been to hypothecate the home revenues as a mere economic measure to replace the additional territorial gage illegally created by the seizure of the Ruhr, the appointment of the trustees would have more than sufficed to deal with the purely financial tasks involved. But imperialistic motives subjected the administration of Germany's resources to far more than a formal control by the victor States.

"The whole question of control and how it should be exerted by the Allies over Germany really centres round the railway system. The control of it means the *control of Germany*. . . ." ¹ It is in these words that Rufus Dawes clothes the ideas of the experts. The German railways are placed under the control of a Frenchman assisted by six French officials and three of other nationality. The Railway Commissioner has the right to demand any information and to inspect the books of the company. Either personally or through his assistants he inspects the installations and the offices. Hence nothing is kept secret from him. If, in his opinion, any structural, working or tariff measure jeopardizes the rights of the creditors and he fails to induce the Director-General to make the desired change, he brings the whole matter before the Board of Management for final decision. One half of the eighteen members of that Board are appointed by the German Government and the other half by the trustee as representative of the creditors. Of these latter representatives, five may be and actually are Germans. If, however, the company should default in regard to its payments, the Railway Commissioner may order certain

¹ Rufus C. Dawes, *op. cit.*, p. 236. (The italics are mine.)

expenditures to be stopped, or the tariffs to be raised to a level which he considers adequate. He may also require the Board of Management to appoint another Director-General. In the event of continued default, he may himself take over the working of the railway and, eventually, lease a part or the whole of the concession.

A similar check is kept upon the assigned revenues (customs and taxes). This important function has been entrusted by the Reparation Commission to a British subject assisted by three other Britishers and two foreigners. He, too, exercises extensive inspectorial rights; he may visit taxed factories and has to be informed simultaneously with the Reichsrat concerning all parliamentary bills and orders affecting his department. In the highly improbable event of the budgetary amounts paid over to him lagging behind the budgetary obligations, he may demand from the Reichs Minister of Finance the strictest exercise of his powers and may raise objection to the reduction of any tariffs, etc.; under given circumstances he may demand alterations in the organization of the controlled revenues. The proceeds of the controlled revenues are at the direct disposal of the Commissioner; he transfers them to the Agent-General to the amount provided for, accumulates a reserve fund of 100 million Reichsmarks and refunds to the German Government any surplus revenues.

A general control over the German payments is exercised by a control board consisting of the Agent-General appointed by the Reparation Commission and the Commissioner to the Reichsbank and the Commissioner for Taxes. The Agent-General is likewise the intermediary between the Reparation Commission and the various commissioners. He derives his most important powers from the clauses dealing with the transfer of tribute to the creditor States. He may not exercise general financial control unless Germany is voluntarily in arrears with her payments. But the criticism of the German financial administration contained in his reports

is distinguishable from general financial control only inasmuch as it lacks a formal legal basis.¹

The Dawes Agreement does not confine itself to appointing a staff of foreign officials equipped with extensive tutelary and sovereign powers; the creditor States even have a hand in the appointment and discharge of Germans, such as the directors and Director-General of the German Railway and the managers of the Bank for Industrial Obligations. The Reichs-President's right of appointment is correspondingly restricted or abolished. Moreover, important decisions are subject to the assent of the Administrative Council of the German Railway Company and of the Supervisory Council of the Bank for Industrial Obligations, these councils being composed half of foreigners.

So, too, the Reichsbank has to submit to one half of its General Council being foreigners; and this council elects and discharges the President and the members of the directorate. No other European note-issuing bank is subject to such foreign interference. Even in the case of Austria, whose note-issuing bank was established under the auspices of the League of Nations, no use has been made of the conceded statutory possibility of appointing foreigners in the administrative council.² It was considerations of a political nature which led to the placing of Germany's Reichsbank under foreign control. Day by day the tutelage established over Germany's credit policy is presented to the eyes of the world in the form of the stamp which the foreign Reichsbank Commissioner must affix to every German banknote before it can be put into circulation.

As the New York "Commercial and Financial Chronicle" correctly wrote when the Dawes plan was published:

"It would not be improper to call the Dawes Plan an international bankruptcy commission. Nothing like the proposed

¹ Cf. M. Sering, "Die Zuständigkeit des Generalagenten," *Hamburger, Wirtschaftsdienst*, v. 25, Nov. 1927.

² Cf. Dr. Hjalmar Schacht's "Stabilisierung der Mark," Berlin and Leipzig, 1927, p. 126.

procedure is to be found in history. Germany is to be taken over and administered in the same way as a corporation no longer able to meet its obligations is taken over by the law and transferred to the hands of the bankruptcy commissioners. The representation of Germany on the committees only partially obscures the fact that, in reality, a foreign control of internal affairs has been imposed such as never before existed either in our times or in the past. The velvet glove is only an inefficient covering for the iron hand. Never before has it been proposed to take such complete possession of the wealth of a nation."

If we except the one possible case of Greece, no parallel to this situation can be found in countries inhabited by the white race, outside Egypt, the Central and South American republics and a few other tropical and sub-tropical places. In these instances the establishment of an indebtedness has paved the way for the activities of a conquering imperialism. The financial control to which these countries have been subjected is fundamentally distinguished from the economic guarantees of private creditors by laws which existed in the debtor countries, such as Portugal, Bulgaria, Serbia and Turkey : it is based upon international treaties which affect the independence of the debtor country, nay, even ultimately render it illusory.

In Greece the levying of important taxes is in the hands of a *regie* company controlled by an international commission. The members of the commission are appointed by the great Powers. Without its assent, the Greek Government can neither issue Treasury notes nor raise loans. The control has its origins in the preliminary Peace of Constantinople concluded in 1897, in pursuance of which Greece passed a statute in 1898 which cannot be amended without the consent of the Powers. This control of Greece was preceded by the subjection of Egypt. During the building of the Suez Canal, *i.e.* from 1862 onwards, Egypt, which was tributary to Turkey, had incurred, mainly for unproductive purposes, such heavy debts at such a high rate of interest that it was forced in 1876 to declare itself bankrupt. The principal creditors, namely, Great Britain and France, who had

long been political rivals in Egypt, ultimately obtained by force of arms (1882) an "Administrative Protectorate" in the form of a general financial control: under this arrangement a commission consisting of members appointed by foreign Governments has the right to participate actively in all branches of the administration.¹

The control exercised over the Central and South American States is at least equally severe. In this case only one creditor country is concerned, namely, the United States, the debtor States being inhabited chiefly by coloured peoples who lie beyond the pale of other great Powers. The relations of the United States with Cuba, San Domingo, Haiti, Nicaragua, etc.² reveal a remarkable combination of the right to military intervention and the possession of dominating positions in the economic life, the control of customs, currency, traffic, fiscal legislation, etc.; and such key positions the citizens of the United States also managed to secure in Bolivia by a loan granted to the country in 1922.³

Since the war the victor States have applied a similar system to the defeated countries of Central Europe, *i.e.* to Austria, Hungary and Germany. This confirms my assertion that, by the dictated Peace of Versailles, Germany has been debased to the level of the subjugated coloured peoples.

In accepting the Dawes Scheme, Germany has exchanged this monstrous deprivation of her rights merely for the advantage of a rather better safeguard against the system of club law adopted by her "liege lords." The

¹ Westhaus, "Die ägyptische Finanzwirtschaft und ihre internationalen Beziehungen," Düsseldorf, 1896, S. 47; Wuarin, *op. cit.*, pp. 186 *et seq.*

² The subjection of these States has been carried out gradually since the end of the nineteenth century by the alternation of military intervention and economic penetration. Cf. Scott and Nearing, "Dollar Diplomacy," pp. 173 *et seq.*, 190 *et seq.*, 133 *et seq.*, 151 *et seq.*

³ Nearing and Freeman's "Dollar Diplomacy," pp. 30-34. Cf. also Margaret A. Marsh, "The Bankers in Bolivia," New York, 1928, pp. 5 *et seq.*, 99 *et seq.*, 105-109, 125 *et seq.*, 148-157, 158-162; Malvin M. Knight, "The Americans in Santo Domingo," New York, 1928, pp. 19 *et seq.*, 37-39, 61, 69, 163, and Leland H. Jenks, "Our Cuban Colony," New York, 1928, pp. 78, 237, 250 *et seq.*, 281 *et seq.*, 306.

sanction clauses of the Versailles Peace Treaty (Part VIII, 17, 18 of Annex 2) remain, indeed, in force. The Reparation Commission is, however, left a free hand to form its own judgment concerning "default by Germany" and to recommend "the action to be taken in consequence of such default." But their decision is made contingent upon a motion for establishing a flagrant failure. Should the decision not be unanimous, any member of the Commission who has taken part in the vote may appeal to an arbitral commission. "This arbitral commission is to be composed of three impartial and independent persons to be appointed by a unanimous vote of the Reparation Commission, or failing unanimity, by the president for the time being of the Permanent Court of International Justice at the Hague. The president is always to be a citizen of the United States of America."¹

The whole question may be summarized as follows :—The Treaty of Versailles had laid excessive impositions upon the German people. How it was to meet those impositions was its own concern. Interference with Germany's internal affairs ought to have been avoided. The Dawes Agreement has carried the curtailment of Germany's right to an extreme by prescribing in minute detail a scheme for the raising of funds, and by providing, over and above the occupation of the Rhineland, a highly inquisitive supervision in order to enforce the raising of those funds. This was the price to be paid for the liquidation of the raid of the Ruhr by the French and the Belgians. Since the ratification of the Dawes plan, there exists scarcely a single important sphere of public or economic life in Germany which is exempt from the influence of foreign Powers either direct or indirect, the military and naval forces, the finances, the traffic on the waterways and railways, the currency and the credit

¹ Cf. Hans Gerber, *op. cit.*, p. 79. As Chr. Eckart in the "Handbuch der Staatswissenschaft" (IV. Aufl., Bd. 4, S. 501), in my opinion correctly states, the clauses referred to above have been rescinded by the Locarno Pact.

possibilities of the country being subject to foreign control. Those who fathered the scheme were wise enough to render the control as invisible as possible. The Belgian proposal that foreign *regie* administrations should be introduced into Germany was rejected by the Dawes Committee. The direct taxes of the Reich, the Federal States and the communes are subject only to the general lien imposed by the Treaty of Versailles; and only key positions are held by foreigners, though these are to be found everywhere. Consequently, the man in the street is scarcely aware of the manner in which his life and environment are subjected to foreign control. Nevertheless, the effects of that control extend to every factory, every workshop, every farmstead and every household, no matter how poor it may be.

(B) *The Amount of the Tribute*

Tribute is the enforced payment of money or commodities by one State to another. But modern intercourse has linked the various countries and the various economic systems so closely together that no private household, no enterprise and no country can pay more than it receives. Unless an early insolvency is to ensue, tribute can only be paid so long as counter-items appear in the balance of payment.

Such counter-items are claims arising out of investments abroad or revenues produced by shipping and other services rendered to foreign countries. Where, as in the case of present-day Germany, these invisible items play but a small part, the only source of tribute is the surplus of commodity exports over commodity imports, unless loans flow in for a time from abroad. Germany's capacity to pay is, therefore, contingent upon its balance of trade. The tribute may be paid either by the transfer of claims arising out of commodity exports (cash payment) or by unremunerated deliveries in kind. But even in the latter case there must have been a previous

counter-entry of some other transaction in order to preserve equilibrium in the balance of payments.

Such is, in brief, the theory taught us by practice and forming the basis of the Dawes Report. Even at Versailles it was the American experts who, in contradistinction to the rapacious "statesmen," maintained that the assets available for reparations could be obtained only from a surplus of exports over the necessary imports.¹

Subsequently, the admirable investigations made by Messrs. Moulton and McGuire have thrown much light upon the subject and have proved that Germany's balance of payment had been rendered adverse and in need of foreign loans, a situation which presented but little prospect of improvement.²

But the First Committee of Experts declined to fix Germany's reparation indebtedness at a figure within her "capacity to export in excess of her imports," because "this would involve so low a figure as to be quite unacceptable to her creditors and unwarrantably favourable to Germany."³ Adopting these political and "moral" but non-economic arguments, they decided not to fix the German payments according to the country's capacity to pay, but at the highest figure which, in their opinion, the country could internally raise. By this they understand the difference between the maximum financial revenue and the minimum expenditure of Germany for her own requirements. It was Owen D. Young who brushed aside all the difficulties in the legal situation and in the computation of the payments already made by Germany. During the voyage of the American experts to Europe, as well as afterwards at Paris, he successfully argued the thesis that, as the Experts' Report puts it, "the German scheme of taxation must be 'fully as heavy proportionately as that of any of the Powers represented on the

¹ Rufus C. Dawes, *op. cit.*, pp. 26 and 27.

² Moulton and McGuire, *op. cit.*, pp. 116 and 140.

³ Report of the First Committee of Experts, XIII. The further argument that the balance of trade and the balance of payments can only be questionably estimated in advance affects scarcely less the assessment of the internal capacity.

Commission.' ” This maxim is claimed to be manifestly both “morally sound” and “economically just,” because otherwise the German economy would be given an unfair advantage over countries which had suffered devastation through the war. But when people came to think out carefully the question of commensurate burden, they soon found it to be unascertainable. What a commensurate burden is cannot be ascertained, for the simple reason that there exists no uniform method of determining the national income and also because, in the case of Germany, tribute to be sent abroad cannot possibly be compared with taxation for home services. The yield from the latter creates or maintains some possibility of productivity; the former results in an absolute reduction of the national income. “Taking into consideration all of these and other complications, it is to be doubted if any economists could produce a definite table of commensurate burden that would be accepted by any other economist.”¹ Recourse was consequently had to the hypothesis that Germany’s creditors already pay taxes to the extreme limit of their capacity, so that the thesis of equal burdens would mean that Germany must pay, year in year out, taxes to the extreme limit of her capacity. In this way people arrived at the fundamental principle of the dictated Peace of Versailles, namely, “Germany must provide within the utmost limits of her capacity for her external Treaty obligations.”² Nay, they even outdid this, inasmuch as they constructed an index of prosperity which, in proportion to the growth of population, the increase of foreign trade, etc. automatically increased the burden imposed upon the German budget. The index of prosperity takes effect in the standard payments to commence on the expiration of the fourth year of the moratorium period in which it was supposed Germany would be able to recover her former capacity. In endeavouring to ascertain the standard amount which the

¹ Rufus C. Dawes, *op. cit.*, p. 137.

² Cf. Experts’ Report Summary (VIII. a, 2), and Clemenceau’s Covering Note to the Treaty.

country might produce, the Experts' Report restricts itself to fiscal and commercial analysis.

The arguments put forward were roughly the following :—The railways belonging to the German Reich produced prior to the war a surplus of about one milliard. The railways constitute a property unburdened by any debt ; for they were taken over, in 1921, from the various Federal States for a sum of 358 milliard paper marks, now representing less than 100 dollars. The total net annual profits which may with certainty be anticipated, and which are to be transferred to the Reparation creditors, are as follows :

- (1) Roughly 290 millions on account of the Transport Tax introduced during the war ; the amount is made up of the proceeds of a surcharge on the passenger and freight traffic.
- (2) 660 million gold marks, representing 5 per cent. interest and 1 per cent. sinking fund on 11 milliard gold marks reparation debentures.

In order to provide the German Railway Company with funds for new structures and improvements as well as to contribute to the Reich a trifle towards Reparation payments, they had transferred to them $1\frac{1}{2}$ milliards and $\frac{1}{2}$ milliard respectively in the shape of "7 per cent. preference shares," which would, if everything went well, produce annually 140 million gold marks. Since then, a guarantee by the German Government has made these preference shares marketable so that they constitute a good investment for home and foreign capital.

It was in such a manner that the anticipated annual profits were disposed of. The Reich, in its capacity as owner of the railways, was restricted to ordinary shares ; following the American custom in founding corporations, the nominal value of these shares was booked as though of equal value with the debentures and preference shares, namely, 13 milliards, a sum of merely trifling significance. But in this way an investment value of 26 milliards was obtained, and it was possible to inform the public that

less than 3 per cent. of that value was demanded, or not more than, for decades, the United States probably sent abroad as interest for the building of her railways.¹

The report then proceeds to argue that, during the inflation, industry, like the railway administration, had discharged its debts in depreciated currency and had made exceptional profits. The burden therefore suggested—namely, 5 milliards debentures and 300 millions annually for interest and sinking fund—“is less than the total debt of industrial undertakings in Germany before the war,” and is therefore a burden which can be borne by them without detriment.

Lastly, the report alleges the Reich to have been freed from all its burdens by the collapse of the currency; accordingly it can be severely taxed without endangering the equilibrium of the budget or exacting too much from the taxpayer. In a happy-go-lucky way, the same amount was put down for the German budget (*i.e.* for the taxpayers) as had been put down for the interest and sinking fund service of the railway and industrial debentures (660 millions and 300 millions) plus the transport tax (290 millions), that is to say, 1,250,000,000 marks. In this way a total of 2,500,000,000 marks was arrived at, by a procedure whose schematic structure alone suffices to reveal the lack of any previous investigation into Germany's capacity to pay.

The maxims quoted above concerning “just” burdens to be imposed upon the German taxpayer refer particularly to payments to be made out of the revenues from Reichs taxation. Reasons of justice and business competition demanded the imposition of a fresh debt upon the budget commensurate with the burden resting upon the French, the British, the Italian and the Belgian taxpayer.

In Chapter VIII (*b*, Commensurate Taxation) the experts endeavour to show that the burden to be placed upon the Germans does not exceed their capacity.

But their arguments exclude the revenues yielded by

¹ Rufus C. Dawes, *op. cit.*, p. 243.

the railways. They state that, in other countries, these "form a part of the ordinary profits of private concerns accruing to individuals, and it may be said, therefore, that in Germany the position of the taxpayer is the same whether such profits go to the individuals or to the Allies as reparation." And yet, in the same breath, they recognize the simple truth that "the abstraction of the profits of so important an undertaking as the railways of a country from that country is, indeed, a 'burden' in the international sense!" It is well known that, prior to the war, the railways in the various Federal States yielded heavier revenues than all the direct taxes together. In Prussia the railways made it possible to provide free tuition in the elementary schools. Consequently the loss of the railway revenues resulted in a corresponding increase of taxation especially for the schools. Plainly all reparation payments and the interest service of the Industrial Debentures must be abstracted from the national income, which, in contradistinction to internal taxes, they curtail by their full amount.

In their further procedure the experts adopt certain premisses from which they propose to deduce the tolerability of the German tribute; although they, themselves, admit these premisses to be untenable. These premisses are as follows :

(1) "The ordinary expenditure which has to be provided for in the German budget is reduced, in part by the restriction upon her military preparations but above all by the practical extinction of her internal debt."

The experts fail to discuss more closely the reduction of the military expenditure. And yet the present estimates, plus the provision to be made for the former regulars, for the disabled and for the war widows, total 9 per cent. more than the expenditure for the whole of the defensive forces of Germany before the war.

"If Germany," says the Dawes Plan, "had sustained the burden of her own debt, as the Allies have done, and not obliterated it by inflation, she would have

of the economic barriers in the Ruhr is one of the objects sought to be accomplished by this effort, and not the promulgation, through the world, of well-guarded opinions upon matters admittedly of estimate only."¹

Possibly the optimistic attitude of the experts was, in part, due to their desire to strengthen thereby Germany's credit.²

The outcome of all these admonitions was that the experts' plan contained some rather fulsome generalities in praise of Germany's natural resources, technical equipment and capable population.

"But Germany's growing and industrious population, her great technical skill, the wealth of her material resources, the development of her agriculture on progressive lines, her eminence in industrial science, all these factors enable us to be hopeful with regard to her future production. In particular German industrialists had 'been enabled' to increase an entirely modern plant which is now adapted in many industries to produce a greater output than before the war. . . . Germany possesses the means for exploiting 'her resources' on a large scale; when the present credit shortage has been overcome, she will be able to resume a favoured position in the activity of a world where normal conditions of exchange are gradually being restored."

In the Experts' Report, these are the only references made to the position of the German economy as determined by the provisions of the Peace of Versailles. Their paucity shows that, in point of fact, political considerations and not economic maxims determined the standards on which the German tribute was fixed.

The general outline of the Committee's scheme was

¹ Rufus C. Dawes, *op. cit.*, pp. 167-168.

² Indications of the kind are to be found in a memorandum addressed soon afterwards to M. Barthou by General Dawes. This memorandum also contains some carefully considered compliments intended for M. Poincaré—compliments which he is fond of quoting. They are, however, somewhat veiled, being worded thus: "In my judgment, it was only her [France's] courage to act in moving into the Ruhr which has precipitated the conditions and emergencies which have rendered possible an economic peace which is really to be an economic peace. Had it not been for that action, this Committee would not be in existence." Rufus C. Dawes, *op. cit.*, p. 180.

soon determined. And then, for months, a struggle went on over the figures, the British wanting them fixed at about 1 milliard and the French at about 3 milliards. The decision arrived at was mainly influenced by the consideration: "How can we make matters palatable to the French?" To the Americans, who ultimately got matters settled somewhere between the British and the French proposals, the sum finally adopted appeared a matter of comparative indifference, inasmuch as they assumed that the transfer difficulties would soon render a revision of the scheme necessary.¹

The Americans, over-estimating the strength of France's position on the Ruhr, were mainly intent upon forcing Poincaré to withdraw his troops from that coal basin. This necessitated their allowing the amount of the tribute to be virtually equivalent to the sum fixed in the London Agreement.

As a matter of fact, the two coincide very exactly. The foundation is formed by the 5 per cent. railway and industrial debentures which total 16 milliard gold marks. The sinking fund of 1 per cent. will suffice to redeem them in thirty-six or thirty-seven years. If we assume that the payments out of taxation revenues including the proceeds from the Transport Tax (1540 million marks) are to be completed within the same period, and that they coincide with capital earning 5 per cent. per annum, we obtain a present value of 27 milliards, which almost equals the 31 milliards representing a permanent annuity.

The standard payments of the Dawes Plan thus represent a present capital of 43-47 milliard marks, or, deducting the reduced payments of the first four years, a capital of 40-44 milliards.² But the index of prosperity greatly increases the burden. If, with Raab,³ we assume the index of prosperity in the year 1929 to be 1 per cent. and

¹ State Secretary Bergmann, *op. cit.*, p. 290, gives a similar summary of the situation.

² Cf. Sven Helander, "Enthält der Dawesplan eine Gesamtsumme?" im "Wirtschaftsdienst," Hamburg, 1925, Nr. 19.

³ Prof. Friedr. Raab, "Die Bedeutung des Wohlstandsindex," in der Zeitschrift "Der Weg zur Freiheit," 1927, Nr. 18, 22, 24.

to rise by 1 per cent. per annum, the increase of the burden upon the budget will be 875 million marks in 1962, 900 millions in 1963 and 925 millions in 1964, *i.e.* in the year in which the industrial and railway debentures will be completely redeemed. Capitalized, these increased payments would amount to roughly 6 milliard marks at the present time; so that the capitalized value of the entire Dawes burden is about 46-50 milliards.

However, a yearly increase of 1 per cent. seems very moderate. The average annual increase shown by the index of prosperity for the twelve years ending 1913 was 6.8 per cent., *i.e.* $11\frac{1}{2}$ times the actual augmentation of income at that time. Plainly the index was very misleading; it indicated a growth of national wealth where none whatever existed.¹

Thus, taken all in all, the Dawes Plan coincides pretty accurately with the scheme of the London Protocol of May, 1921, which required the payment of interest and sinking fund annuities on 50 milliards of bonds, the main difference being that the Dawes Plan prescribes an amortization annuity on only a small proportion (16 milliards) of the annual standard payments and leaves the duration of the other payments undefined.

The total amount of the German indebtedness remains at 132 milliard gold marks, so that "never, even in thousands of years, will Germany be able to pay off her debts."²

Hence the experts had effectually fulfilled the wishes of the father of the Ruhr Raid, and when, in the sitting of the Chamber on January 26, 1925, Dubois, the ex-President of the Reparation Commission, protested that the Dawes Plan had considerably reduced the German Reparation obligations, Poincaré had every reason to interjuncture, "That's not true."

¹ Cf. Prof. Eugen Würzburger, "Wohlstandsindex," in "Dresdner Anzeiger," vom 18 Mai 1927. Dr. Schuster in the "Wirtschaftskurve," 1924, III. S. 304.

² Cf. Jacques Seydoux in the "Revue Économique Internationale," March, 1927.

The only advantages to Germany provided by the Dawes Plan are, first, that it included *all* the obligations arising out of the Peace of Versailles, viz. the costs of occupation and of foreign supervision as well as the annuities of the foreign loan granted for the first Dawes year; secondly, that it vouchsafed a year's breathing space followed by a three years' transition period prior to the commencement of the full standard payments; and, thirdly, that it made due provision for certain restrictions in the transfer of the tribute money.

(C) *The Transfer Restrictions*

Had the Dawes Committee merely worked out and established the new scheme of payment, the verdict upon its activities could only have been that it had, with great acumen, evolved a system which perpetuated the injustice of Versailles, completed the enthrallment of the German people and aimed at squeezing the last farthing out of its economy. Such a judgment, however, would be unjust. For the improvement effected by the Dawes Plan as compared with the London Protocol of 1921 lies in the check which it designed to place upon the payment of tribute. This consists in the arrangements made for the transfer of that tribute money. The collection of the tribute and its transfer abroad are sharply differentiated; the one is a matter for Germany, the other for her creditors; and, in the long run, Germany is not to pay more than can be transferred.

While acting as politicians and tacticians in the drafting of the scheme of internal payments, the experts followed their economic convictions in setting up barriers to the transfer of the funds themselves. This differentiation of their attitude is observable even in the style of drafting. In the one case, they veil the lack of economic investigation by continually assuring us that the proposals are the natural outcome of morality, justice and fairness, or they assert the world to be convinced that it is within the capacity of Germany to bear this burden;

in brief, they employ the phraseology of Versailles and Geneva. In the other case, they adopt the simple and straightforward language of science, as, for example, when they write :

“The funds raised and transferred to the Allies reparation account cannot, in the long run, exceed the sums which the balance of payments makes it possible to transfer without currency and budget instability ensuing.

“For the stability of a country's currency to be permanently maintained, not only must her budget be balanced, but her earnings from abroad must be equal to the payments she must make abroad, including not only payments for the goods she imports, but the sums paid in reparation. Nor can the balance of the budget itself be permanently maintained except on the same conditions. Loan operations may disguise the position—or postpone its practical results—but they cannot alter it.”

The Peace of Versailles having stopped all sources from which, before the war, Germany drew her share of revenues from abroad, her possibilities of effectuating payments abroad are now confined within the limits of her export surplus.

If “the liability” were “fixed without regard to” the “excess of exports . . . and the discharge of the liability left to uncontrolled events without any possible regard to exchange difficulties, this would lead to future instability and disaster.” (Dawes Plan, XIII.)

To prevent this a Transfer Committee was appointed. This committee controls the payments to be made out of the funds accumulated for account of the Agent-General with the Reichsbank. The cash payments most desired by the creditor Powers necessitate the purchase of foreign currency, more particularly foreign bills. If the demand for these runs into milliards and there is no corresponding excess of exports, the rate of exchange immediately suffers and the price of foreign bills rises accordingly.

On the other hand, payments to the German exporter for deliveries in kind under the Treaty of Versailles and the agreements to which it has given rise are made in marks. Consequently they do not directly affect the

rates of exchange. Nevertheless, the experts were well aware that such deliveries in kind affect the balance of payments and accordingly jeopardize the stability of the currency. Indeed, they regard this as especially dangerous. Since the barometer of the exchange rates does not immediately react to this unusual economic procedure, the experts devoted exceptional attention to the whole question. After carefully considering the matter, they wrote:—" . . . in their financial effects deliveries in kind are not really distinguishable from cash payments, and they cannot in the long run exceed the true surplus of German production over consumption available for export without either upsetting the exchange or rendering foreign loans necessary." (Dawes Plan, XI.)

Thus even deliveries in kind are rightly considered by the experts to be possible only if there exist corresponding counter-claims produced by a free exchange of commodities; and they very properly entrusted to the Transfer Committee the most important task of regulating the payments under the Reparation Recovery Act. Immediately after defining the composition of the Committee, they state:—" This Committee will regulate the execution of the programme for deliveries in kind and the payments under the Reparation Recovery Act in such a manner as to prevent difficulties arising with the foreign exchange." (Dawes Plan, XIII.) Only subsequently to this do they state that the " Committee will also control the transfer of cash to the Allies by purchase of foreign exchange." Hints are also given as to the means of counteracting the baleful influence of deliveries in kind upon the balance of commodity trade. The experts recognize the political necessity for continuing these deliveries which " are dealt with in the Treaty," for they " are now an inevitable part of the economic conditions of several of the Allies," and " if not . . . carried too far . . . may represent a stimulus to German productivity " and may help to avoid the export " surplus being absorbed by the prior action of private German investment abroad." But they add that, as these deliveries in

kind may easily acquire an uneconomic character, they should "be confined to natural products of Germany . . . (coal, cokes, dyestuffs, etc.), and in the second place to exports which do not entail the previous import into Germany of a large percentage of their value."

If, under the Dawes scheme of payments, more funds accumulate to the Agent-General's Reichsbank account than "can be . . . transferred by deliveries or by purchases of foreign currencies," these non-interest-bearing deposits shall, "up to a certain point, in normal circumstances not exceeding two milliards . . . form part of the short money operations of the bank. Beyond this point . . . such funds" are to be invested "in bonds or loans in Germany . . ." In this way the Agent-General might, under given conditions, become the most powerful creditor in Germany. "For economic and political reasons" a maximum of 5 milliards is fixed for the accumulations. "If this limit is reached, the contributions from the budget" and from the Transport Tax "are to be reduced" to a point which will prevent further accumulation. The underlying economic idea is that, on principle, tribute should not be provided by means of loans; on the contrary, it should be paid out of current revenues, and, if this cannot be done, the payment may be postponed for two years with cancellation if then still impossible. Before reaching 5 milliard gold marks, the accumulation may be suspended by the Committee "if two-thirds of its members are of opinion that such accumulation is a menace to the fiscal or economic situation in Germany or to the interests of the creditor countries." Only in the event of concerted financial manœuvres can the transfer provisions in favour of Germany be suspended.

All this makes the attitude of the experts perfectly clear. They wanted the German payments limited to the excess of actual trade exports (*i.e.* excluding treaty penalties) over imports. This was for them the absolute limit of capacity and eventually the limit of the burden to be borne by the country on its own shoulders; if,

in any one year, "the country's irreducible minimum for . . . domestic expenditure," together with its reparation obligations, should exceed its fiscal capacity, "the only course possible" would "obviously" be "an adjustment of the Treaty obligations of the year."¹ Undoubtedly the experts were well aware that neither before nor since the war has any such surplus existed. But for obvious tactical reasons they never make any reference to the fact. To have denied the feasibility of achieving such an exportable surplus would have been equivalent to jeopardizing the adoption of their scheme by France. They reckon explicitly with the lack of such a surplus only in the initial stage, and provide merely for deliveries in kind in restricted quantities for the first two years. For the later stages they demand that, in order to prevent exchange difficulties, the programme of deliveries in kind be carefully considered in advance and at regular intervals by the Reparation Commission acting jointly with the Transfer Committee. But, with a gradual diminution of the deliveries in kind, the tension between the balance of trade and the demands for reparation obligations must, in their opinion, find increased expression in the rates of exchange. Hence, the payments to be made must fluctuate with the position of the money market. "We are convinced," they write, "that some kind of co-ordinated policy, with continuous expert administration in regard to the exchange, lies at the root of the reparation problem and is essential to any practicable scheme in obtaining the maximum sums from Germany for the benefit of the Allies."²

The Transfer Committee was created in order to render elastic the whole system of tribute payments. It also provided the experts with a way out of the blind alley into which they had been forced by the prohibition of a definitive ascertainment of Germany's capacity to pay. If, after all, the sum demanded from Germany actually be transferred out of an exportable surplus, this would presuppose that enormous increase of German

¹ Dawes Plan, VIII.

² Dawes Plan, XIII, closing sentence.

exports feared by the Allied countries, and more particularly by numerous influential circles in Great Britain.

It is, however, to be assumed that at any rate the leading members of the Dawes Committee reckoned with the German balance of trade remaining adverse for a long period and with the impossibility of making the transfers. Consequently their Plan confers exceptional authority upon the Transfer Committee. That committee consists of no fewer than six persons, namely, an American, a Frenchman, an Englishman, an Italian and a Belgian, with the Agent-General acting as chairman. They are all prominent experts and, in pursuance of the provisions of the Dawes Plan, are appointed "after the member of the General Board of the Bank of the same nationality has been consulted." If, in their judgment, the excess of the funds accumulated for the payment of reparations cannot be permitted to leave the country, "no citizen of an Allied nation can say that justice and morality have been violated in the forgiving of a debt, but will know that the debt fails of collection because of the real poverty of the debtor."

PART II

THE EXECUTION OF THE DAWES PLAN

CHAPTER IV

THE EXECUTION OF THE DAWES PLAN

Its Significance in National and International Economy

PRACTICAL experience was to determine Germany's capacity and to provide the final solution of the reparation problems. "The experts believed their plan calculated to facilitate a final and comprehensive agreement," not merely "as to all problems of reparation," but also as to "connected questions," *i.e.* the Allied debts, as soon as circumstances make this possible.

Practical experience has left us all in the lurch; that people imagined it would help us was due to their ignoring the fundamental economic fact of Germany's lack of capital. In the Experts' Report there is not a single word about the vast losses of real capital suffered by Germany during the war and the Ruhr Occupation as well as through the annexations and uncompensated expropriations. Moreover, the experts failed to appreciate at its true value the effects of the inflation. They saw only the dislocation in favour of the enterpriser and the destruction of working capital in the shape of money and monetary claims; they failed to see the pernicious effects of the errors into which business men had been led by the furious devaluation of the country's currency—a devaluation which made it impossible to calculate in advance and induced everyone to convert his monetary earnings into commodities as rapidly as possible. Finally,

too, they paid no consideration to the fact that, as a result of their having been shut off from international intercourse for almost ten years, the factory plants were, in general, anything but ultra-modern; on the whole, they were, indeed, in just as bad a state as everything else in the country: the factories were technically out of date; the soil was impoverished by lack of fertilizers, drainage, etc.; the cattle were underfed and the cattle stocks themselves decimated. In order to cope with this situation, and especially to effect the regrouping of factories necessitated by the curtailment of German territory, large long-term investment loans were needed. But the experts were under the misapprehension that supplementation of the working capital would suffice to set German production going again: when this had been done, the balance of trade and the exchange rates dependent thereon were to determine the German tribute payments.

As a matter of fact, however, the counter-item in the balance of payments—that item without which the tribute could not be paid—was not obtained by means of German exports but by foreign loans. In such volume did these stream in that the rates of exchange which form the normal gauge of productivity and payment capacity were completely neutralized and no more reliable than the needle of the compass in the neighbourhood of the magnetic pole. And yet the Transfer Committee held to the rule set down in the Experts' Report which empowered it to give effect to "deliveries in kind and to payments under the Reparation Recovery Act" . . . "to the extent to which, in the judgment of the Committee, the foreign exchange market will permit, without threatening the stability of the German currency."¹ Despite the want of an export surplus, no such threat existed because the loans provided an abundance of foreign bills.

¹ Cf. Report of the First Committee of Experts, Annex VI, "Powers of the Committee."

GERMANY'S BALANCE OF PAYMENTS

(in millions of gold marks—values at respective dates).

	1913.	1924.	1925.	1926.	1927.	1924-27.	
						Totals.	Annual average.
<i>Debit Items.</i>							
Trade Balance (incl. gold and silver) .	-1,008	-2,200	-3,492	-351	-3,563	-9,606	-2,401
Reparation Payments .	—	-281	-1,057	-1,191	-1,584	-4,113	-1,028
Total . . .	-1,008	-2,481	-4,549	-1,542	-5,147	-13,719	-3,429
<i>Items either at present or formerly Credits.</i>							
Balance of Invisible Items . . .	+1,600	+79	-62	-16	-223	-222	-55
Surplus of Capital Importation (+) and Exportation (-) .	-592	+2,200	+3,929	+834	+4,715	+11,678	+2,919
Reparation Payments :							
(a) Deliveries in kind	—	+119	+520	+631	+578	+1,848	+462
(b) Made in the country .	—	+83	+162	+93	+77	+415	+104
Total . . .	+1,008	+2,481	+4,549	+1,542	+5,147	+13,719	+3,429

The above figures, in so far as they concern items against payment, are discussed later on. The commodity trade balance has been rectified on the view adopted by the "Konjunktur Institut" that the commodity imports (excl. gold and silver) had been over-estimated by about 5 per cent. in 1924 and 1925, and by about 3 per cent. in 1926 and 1927, while the commodity exports had been under-estimated by about 1.5 per cent. There exist no similar data for a correction of the figures for 1913; consequently, the figures given above for 1913 do not permit of reliable comparison with those for 1924-27.

As compared with 1913, the adverseness in the balance of trade was quadrupled during the years 1926-27. Accordingly, there was no export surplus at disposal for reparation payments. Moreover, the invisible items of the economic balance now showed a waxing deficit,

whereas, prior to the war, they had rendered the balance of obligations as between Germany and abroad favourable to the extent of half a milliard. It is estimated that, in 1924 and 1925, hoarded German notes to the value of 1,200,000,000 gold marks found their way back to Germany. Apart from this item, the entire excess of imports and the whole of the reparation payments had to be met with the help of loans and short-term credits. In this way German indebtedness increased by roughly 10 milliard marks by the end of the year 1927. Including the Dawes Loan of the nominal value of 960,000,000 marks, this indebtedness comprised loans publicly raised to a face value of 5,505,000,000 marks or, deducting repayments made, 5,107,000,000 marks. About the same amount, namely, 5 milliard marks, was obtained by short-term loans and credit for exports. At the same time, it must be remembered that the tribute paid with German money (deliveries in kind, payments to the armies of occupation, costs for foreign commissions) is entered as an asset in the balance of payments, although only a portion of the deliveries in kind can be regarded as an improvement of that balance, namely, those deliveries which would not have been exported save for the compulsion.

Gustav Cassel rightly remarks that the reverse had happened of what the statesmen of the victor Powers had expected from the Dawes Plan. They wished to force a stream of capital from Germany into other countries. But economic necessity was stronger, and turned the flow of capital in precisely the opposite direction, that is to say, from abroad into Germany.¹

It must not, of course, be supposed that, for the payment of the first year's tribute the Reich had raised another loan besides the Dawes Loan. The loans—both long-term and short-term—flowed in nominally for the use of German economy—the long-term mainly in the form of foreign bills which were exchanged for marks

¹ "The Dawes Plan Unworkable," by Gustav Cassel, published in the *Financial News*, Oct. 25, 1927.

with the Reichsbank for purposes of domestic investment, for buildings, for the purchase of inland raw materials, machinery, etc. But then they flowed back again, for the foreign bills sold to the Reichsbank for these domestic purposes were at the disposal of the Agent-General for making transfers. Nor could there be any great difficulty in raising the reparation payments by means of taxation so long as capital was streaming in in such quantity.

Under these circumstances the payments hitherto made afford no sort of criterion as to Germany's financial capacity. In face, therefore, of the rapidly increasing indebtedness and of the impending standard payments under the Dawes Agreement, the question whether and, if so, how long Germany can continue to meet this double obligation has become an urgent one. Preparations are being made, particularly abroad, for the definitive settlement of the Reparation question as envisaged by the Dawes Plan.

Is there any near prospect of an export surplus wherewith to make the payments?

The prevailing opinion on the situation may be summarized as follows:—Prior to the war, the balance of trade was adverse because Germany, as a creditor country, was able to pay for the excess of imports with the profits derived from capital invested abroad. This might have continued indefinitely but for the war. But the balance of trade is now adverse because Germany has become a debtor country and the loans come in mainly in the form of commodities. Obviously this must come to an end; then, as with all debtor States, the trade balance, being necessarily reversed, will provide the necessary funds for reparation payments.

This view, which is adopted more particularly by American financiers such as Rufus Dawes and George P. Auld,¹ is based upon the consideration that the loans flowing in will succeed in stimulating the productivity of German industry in the same way as did those received

¹ "The Dawes Plan and the New Economics," New York, 1927.

by the United States during the opening up and settlement of the west.

However, the problem cannot be solved by general theories and analogies. We cannot, it is true, dispense with a theoretical examination of the complicated facts of the case, but that examination must begin with an analysis of Germany's economic evolution if any sound judgment is to be arrived at. If this be done, it will be seen that the usual theories have ignored just the most important factors of actual life.

In the first place, it must be pointed out that, as demonstrated above, the German people would have been bound to resort to foreign credit even if it had been saddled with no foreign political debt whatever. Germany had already become a debtor country because, as a consequence of the war and the peace treaties, its economic surplus had given place to a deficit of milliards in the visible and invisible items of its foreign trade. Hence, we must inquire into *the causes of this deficit and of its growth, we must consider whether these causes are of a permanent or a passing nature*, and we must ascertain the effects produced upon the national wealth and disposable capital by the tribute and the loans.

We propose to study the economic evolution of Germany during the past four years by a reference to the balance-sheet of her foreign trade; we shall analyze both sides of her debtor and creditor account and shall endeavour to determine the extent to which the changes produced are fundamental or incidental.

CAUSAL ANALYSIS OF THE CHANGES IN GERMANY'S FOREIGN TRADE AND THE BASES OF HER PRODUCTIVITY

(A) THE FACTS

1. *Balance of Invisible Foreign Trade*¹

EXCESS (+) OR DEFICIT (—) IN MILLIONS OF MARKS
IN VALUES AT RESPECTIVE DATES

	1913.	1924.	1925.	1926.	1927.	1924-27.	
						Aggre- gate.	Annual average.
(1) Interest . . .	+1000[1250]	+80	-90	-200	-430	-640	-160
(2) Shipping . . .	+540	+200	+250	+296	+304	+1050	+262
(3) Miscellaneous Services rendered . .	+60	-136	-137	-37	-27	-337	-84
These comprise :							
(a) Transit Traffic	+120	+30	+30	+65	+70	+195	+49
(b) Insurance Business, etc. . .	+340	-25	-15	-23	-13	-76	-19
(c) Tourist Traffic	±0	-80	-90	-10	+20	-160	-40
(d) Foreign Workers' Savings out of Wages . .	-400	-50	-50	-50	-50	-200	-50
(1) Capital transferred by Migration . .	—	-65	-85	-75	-70	-295	-74
Total . . .	+1600[1850]	+79	-62	-16	-223	-222	-55

Two items are decisive in regard to the receipts from invisible exports, namely, "Interest" and "Shipping." Since 1924 their curves are opposed to each other. The profits from shipping have grown vigorously. By a most energetic exertion it has proved possible to replace a very considerable proportion of the surrendered merchant fleet. Including losses during the war, the German

¹ For the years 1924-27 we make use of the estimates of the German Statistical Office ("Wirtschaft und Statistik," 1928, p. 158) and those of the Institut für Konjunkturforschung (Vierteljahrshefte, 1926, Ergänzungsheft 2).

owners had lost 4,788,000 G.R.T., only a number of small and inferior vessels with a total capacity of less than 100,000 tons being left to them.¹ About one-third of the total loss has been borne by the German Government. On January 1, 1927, the German merchant fleet already comprised once more 4045 vessels with a G.R.T. of 3,400,000 tons, *i.e.* 65·3 per cent. of its capacity on January 1, 1914; 54·2 per cent. is new tonnage (up to seven years old) as against 34 per cent. in 1914. This is doubtless the heaviest percentage that exists. The remaining 45·8 per cent. contains, it is true, 24·8 per cent. of old (repurchased) shipping, *i.e.* vessels of twenty years of age or more as compared with 12·1 per cent. in 1914. Relatively to the population of Central Europe and the importance of its industry, the German fleet is still small. With her 5·6 per cent. of the world's tonnage, she now stands sixth among the seafaring nations. In 1914, with her 12 per cent., she held the second place, following indeed a long way behind Great Britain's 44·4 per cent. (now 32·1 per cent.).

Notwithstanding the favourable character of the business for 1927 which yielded an average dividend of 8·1 per cent. on the shares of the ten most important shipping companies, the total net profits for the year fell behind the earnings of 1913 to the extent of two-fifths, even leaving out of account the monetary devaluation.

Hopeful as these figures are, the curve of improvement in German shipping and its earnings falls far short of the increase in the interest, dividends and similar liabilities due by Germany to foreign creditors.

The McKenna Committee estimated the value of German assets held abroad in 1914 at 28 milliard gold marks; the German Statistical Office is probably right in placing the figure at 20 to 25 milliards. The interest on these assets is estimated by von Glasenapp and the

¹ Hermann Pantlen, "Der Wiedereintritt Deutschlands in die Welt-schiffahrt." Sozialw. Forschungen, Abt. IV., H. 5, 1927.

German Statistical Office at 1000 to 1250 million marks. However, the rate of interest is assumed at so low a figure that the annual yield may be regarded as identical with the *net* return from all foreign investments, inasmuch as the German securities in foreign hands and the shares held by foreigners in German enterprises totalled only a very small amount. By far the largest share of German investments abroad was lost by depreciation, sale and measures of liquidation and sequestration. The McKenna Committee assessed those left to Germany at the probably excessive figure of $6\frac{1}{4}$ milliard gold marks at the end of 1923. At the present time it doubtless amounts to about 5 milliards, which would be only half the total of the rapidly increasing foreign loans to Germany's debit. Irrespective of the interest on the Dawes' Loan, which appears among the reparation payments, the German Statistical Office estimates the net total of interest and similar items paid by Germany for 1927 at 430 million marks; on September 1, 1928, it will reach 500 millions. The difference of $1\frac{1}{2}$ or $1\frac{3}{4}$ milliard marks between the balance of interest in Germany's favour before the war (1 to $1\frac{1}{4}$ milliards) and the balance to her debit in 1928 ($\frac{1}{2}$ milliard) does not, by any means, reflect the whole loss of capital suffered by the German economy through the political events of recent years. For example, these computations ignore the seizures of property belonging to Germans domiciled abroad as being of no direct significance in connection with the balance of payment. The losses caused thereby are not confined to the property itself. Hundreds of thousands of German merchants, industrialists and farmers have had their life's work destroyed. This is one of the chief reasons why the German export trade is recovering so slowly.

As with the interest account, so with all other items except shipping; favourable balances, wherever they existed, have vanished. This is most noticeable in the insurance and banking business, while the necessarily credit item of the transit trade has been greatly diminished.

Emigration, which, for several years before the war, had almost ceased, has once more set in, the figures for the years 1923 to 1927 being, 115,000, 58,000, 63,000, 65,000 and 61,000 respectively. This movement necessitates the transfer of capital to foreign countries; while the capital imported by immigrants is relatively insignificant. True, since 1919, about a million Germans have returned home from inhospitable foreign countries; but they were, almost without exception, people who had been deprived of their property and who now swelled the ranks of those competing for the limited opportunities of earning a livelihood in Germany.¹ The one item of the balance-sheet which shows an improvement is that of "Wages." This is, by its very nature, a minus item. It refers to the casual labourers, chiefly Poles and Ruthenians, who, especially at agricultural seasons of the year—particularly the harvest time—migrate to Germany for a few weeks or months and then return home again. Their number before the war was 700,000 to 800,000 annually. For various economic reasons—above all, the loss of enormous agricultural districts and the comparative poverty of present-day Germany—the figures have now receded to 100,000 to 150,000; consequently, whereas Germany formerly paid, for this labour, about 400,000,000 marks a year, she now pays only 50,000,000.

In fine, the obligations of half a milliard to be met annually by Germany's private economy on account of the loan finds no counter-item in the balance-sheet of invisible trade. Certainly there is none in the extremely adverse balance of commodity trade. *Ceteris paribus*, therefore, the augmentation of the burden of interest must proceed in geometric progression. When, in the autumn of 1928, the full "standard" reparation payments commenced, they were increased by the interest obligation to the extent of one-fifth; the total is 3

¹ Cf. p. 19, *supra*. Most of them came from Poland. According to German computations, 865,000 Germans were forced out of Poland between June, 1919, and August, 1925 ("Wirtschaft und Statistik," Annual for 1925, II., extra number, p. 8 and 1927, pp. 306 and 307).

milliard marks a year, *i.e.* roughly 50 marks per head of the population. Doubtless Germany has thus become the most indebted country in the world.

From our further inquiry we shall learn whether it is possible to focus the point of time when, despite the tribute to be paid, Germany will have been able to accumulate sufficient capital to redeem her foreign loans, and then—rid of the burden of interest—to reconstruct the shattered machinery of foreign trade and to create monetary claims against foreign countries large enough to offset the adverse balance in the exchange of commodities.

2. *Germany's Commodity Trade Balance*

Whereas the figures of invisible foreign trade are necessarily estimates only, those of commodity trade are, on the whole, very reliable. Its bulk is carefully computed by the customs authorities; its value is ascertained partly by assessment, partly on the basis of the declarations made by the importers and exporters.

Only from October 1, 1928, onwards is the value to be based solely upon declarations, as is the case in Great Britain and America now. In order to compensate the errors hitherto affecting the returns and to obtain greater accuracy in drawing up the *balance of payments*, the German Statistical Office has reduced the figures for the value of imports and increased those of exports (cf. *supra*, p. 89); as the pre-war and post-war sources of error are identical, it is advisable to adopt the unrectified figures in making comparisons.

In the following table the survey does not begin till 1925, because, down to the autumn of 1924, the import and export returns are incomplete owing to the German customs having been thrown into confusion by foreign troops. Moreover, there are other reasons why normal exchange conditions were not re-established until 1925; namely, it was only in that year that the unilateral most-favoured-nation clause wrung from Germany at Versailles and the clause requiring her to admit goods duty free

GERMANY'S FOREIGN (COMMODITY) TRADE BEFORE THE WAR AND SINCE

Values in marks at respective dates (0,000,000 omitted).

	Imports.					Exports.					Surplus of Imports (-) and Exports (+).				
	1910-13.	1913.	1925.	1926.	1927.	1910-13.	1913.	1925.	1926.	1927.	1910-13.	1913.	1925.	1926.	1927.*
Living Animals, Foodstuffs and Beverages .	2.93	3.10	4.14	3.69	4.53	0.85	1.08	0.54	0.49	0.43	-2.08	-2.02	-3.60	-3.20	-4.10
Raw Materials and Half-finished Manufactures .	5.74	6.28	6.21	4.95	7.15	2.28	2.27	1.64	2.33	2.24	-3.46	-4.01	-4.57	-2.62	-4.91
Finished Manufactures .	1.35	1.39	2.01	1.36	1.36	2.47	5.53	6.63	6.96	7.55	+4.18	+5.36	+4.62	+5.60	+5.08
Aggregate of Real Wares .	10.02	10.77	12.36	10.00	14.14	8.66	10.10	8.80	9.78	10.22	-1.36	-0.67	-3.56	-0.22	-3.92
Gold and Silver .	0.36	0.44	0.72	0.62	0.24	0.13	0.10	0.04	0.04	0.02	-0.23	-0.34	-0.68	-0.58	-0.22
Total .	10.38	11.21	13.08	10.62	14.38	8.79	10.20	8.84	9.82	10.24	-1.59	-1.01	-4.24	-0.80	-4.14
Reparation Deliveries in kind .	—	—	—	—	—	—	—	0.52	0.63	0.58	—	—	—	—	—

• Monatliche Nachweise über den Auswärtigen Handel Deutschlands, Dezember 1927 (Vorläufige Zahlen).

from the annexed territories ceased to operate. In drawing comparisons, it must also be remembered that foreign trade in 1926 proceeded under very exceptional conditions. A most severe industrial crisis had set in during the autumn of 1925 which lasted well into the spring of 1926. It forced the import of raw materials far below the necessary minimum, while extensive unemployment caused a slump on the home market. On the other hand, the British coal-workers' strike of May to November, 1926, gave a strong stimulus to exports. It augmented by 696,000,000 marks (= 43 per cent.) the exports of raw materials and semi-finished manufactures, and particularly after July, 1926, foundry and rolling-mill products. It is of general significance that the effect of the decline in trade was least felt in the export business (finished goods + 0.34 milliard = 5 per cent.), whereas imports underwent severe curtailment, manufactures falling off by 31 per cent., raw materials by 20 per cent., and food-stuffs by only 11 per cent.¹ In particular, the imports of bread-corn receded but little, and even this decline was not due to any restriction in consumption, but to the favourable crops harvested in Germany in 1925. The marked diminution in the imports of flour and kindred products is to be attributed to the protective duty imposed upon them. Under the influence of the economic depression, the British coal strike and the heavy crops in Germany in 1925, the German trade balance was, for the first time since the war, a favourable one from December, 1925, till May, 1926.

For this reason it is inadvisable to draw conclusions from comparisons between pre-war years and the year 1926. Again, the year 1913, taken customarily as the pre-war year for comparisons, is not altogether suitable. True, like the years 1925 and 1927, its economic character was on the whole favourable, and production reached an unusually high figure, but the year was also an exception, inasmuch as exports ran very high and the import balance

¹ "Der auswärtige Handel Deutschlands," Statistik des Deutschen Reiches, Band 339, I., S. 6.

was accordingly lower than in the years preceding it. It is, therefore, proposed here to take the average of the years 1910 to 1913 inclusive.¹ But comparisons are rendered difficult by the fact that, in the meantime, prices have undergone a great change. The available wholesale index refers to the year 1913 only and deals only with home prices. It is an open question to what extent the various items of the general wholesale index are grouped in the same ratio as those of imported and exported goods.

WHOLESALE INDEX, IMPORTS AND EXPORTS FOR
1925-1927
(1913 = 100.)

	1913.	1925.	1926.	1927.
Food-stuffs :				
Wholesale Index :				
Agricultural Products .	100	133	129	138
Groceries	100	136	132	129
Import Values	100	134	119	146
Export Values	100	50	45	40
Import Surplus	100	178	158	203
Raw Materials and Half-finished Manufactures :				
Wholesale Index	100	141	130	132
Import Values	100	99	79	114
Export Values	100	72	103	99
Import Surplus	100	114	65	122
Finished Manufactures :				
Wholesale Index	100	157	150	147
Import Values	100	145	98	178
Export Values	100	98	103	112
Export Surplus	100	86	104	95

¹ Unfortunately this average does not permit of accurate comparisons with post-war years because the classification of the commodities conformed with the German customs tariff, whereas, since the war, the international arrangement has been adopted. This was also the case with the data provided by the Statistisches Amt for the year 1913, which is the only pre-war year permitting of absolutely reliable comparisons.

The figures give only a general idea of the quantities handled. An examination shows a considerable increase in the imports of food-stuffs for the year 1927 only. But, since the exports of food-stuffs after the war were very small as compared with pre-war exports, the import surplus of these commodities is altogether higher than one might deduce from the rise of prices in agricultural products and groceries. The import curve for raw materials and half-finished goods remains, throughout, considerably below the curve of prices. As, however, the export curve, except for 1926, was still lower, the import surpluses approach the pre-war quantities in all the other years. In finished wares the exports were small in 1926 only. In 1925 they correspond approximately to the presumable price increase; in 1927 they greatly exceeded it. But the exportation of finished goods, notwithstanding its constant increase, lagged throughout behind the price movement; so, too, did the export surplus.

Now, it must be remembered that Germany has to pay for every surplus of imports no matter whether of real wares or of precious metals. Consideration must, therefore, be given to the imports and exports of gold and silver. If we do so, we discover a deterioration of the trade balance for 1925 and 1927, the adverse balance being almost fourfold that of 1913, 2·7 times or 2·6 times that of 1910-13.

As regards the general groups of commodities, raw materials and half-finished goods display an intimate interrelation with the finished manufactures. Looked at together they reveal an important fact, namely, that, prior to the war, the export surplus of finished manufactures was sufficient, not merely to balance the entire import of raw materials, but also to pay for one-third of the entire import of food-stuffs in 1909-13, and one-half in 1913.

In 1925 and 1927 the export surplus of finished manufactures was just adequate to provide German industry with the raw materials and half-finished goods of which it stood in need. Hence, there existed, in the exchange of commodities, no counter-item whatever to meet the

rapidly rising excess of food-stuff imports. The adverse balance of $3\frac{1}{2}$ and 4 milliards thus created in 1925 and 1927 respectively would be reduced by only $\frac{1}{2}$ milliard if a consideration were given for the tribute paid in the form of deliveries in kind. The revision of import and export values made by the German Statistical Office¹ for the purpose of ascertaining more accurately the balance of payments reduced the adverse balance to 3.49 milliards for 1925 and 3.56 milliards for 1927, whereas for 1926 it would be only 350 millions.

As these deficits are not covered by any "invisible" items in the balance of payments, it is clear that—quite irrespective of the reparation payments—foreign credit alone has served to save the German people from hunger.

The notion that the trade balance may have been deteriorated by an increase of consumption as compared with pre-war years is altogether out of the question. Particulars will be found below.

Nor must it be forgotten, in considering German economic figures, that the population of the present diminished territory of the country is very little smaller than that of the undismembered Empire before the war. According to the last pre-war census there were living in Germany, in 1910, 64,920,000 souls; the census of June, 1925 (including the Saar Basin) returned the figure at 63,400,000; at the present time (1928) the total will be about the same as in 1910. Moreover, although only half as great as in the first decade of this century (1926 = 7.8 per cent. as against a pre-war average of 14 per cent.), the excess of births over deaths was 491,000 in 1926 (as against about 850,000 before the war); that is to say, it is greater than in any other country of Europe except Russia.² Prior to the war the density of population worked out as follows per square kilometre of area:—

¹ Cf. *supra*, p. 89.

² In 1926: Italy, 419,000; Great Britain, 288,000; France, 52,000; *i.e.* per 1000 of the population, 10.8 in Italy, 6.4 in Great Britain, 1.3 in France (this last including the nine-tenths German Alsace-Lorraine with 7.5 per thousand).

in Germany 120 (in 1925, 135); in Great Britain, 187; in Italy 125; in France 74.

Now since Germany's balance of trade and the balance of payments for the past three years characterize the country as over-populated, most serious inquiry must be made into the question whether, with the help of the plentiful supplies of foreign capital, an increase in the productivity of the country has been achieved or may be anticipated—an increase calculated to place her in a position to support the population of her present area by her own efforts, and, over and above that, to pay the tribute demanded of her. The figures of foreign trade do not, of themselves, provide an answer to the question; it is essential also to know what productive energies lie behind those figures.

It would be impossible to extend the inquiry to every branch of the country's economy; we therefore confine ourselves to the most important items of manufacture and agriculture, and even these can be dealt with only in broad outline.

3. *Manufacture, Productivity, and the Industrial Trade Balance*

(A) *The Metal and Allied Trades*

The leading manufacturing countries of the world owe their industrial positions largely to the simultaneous possession of coal-fields and iron ore. The iron deposits supply the raw material out of which, in the main, the implements of manufacture, agriculture and traffic are produced; while the coal-seams provide the energy to set those implements in motion. If we include lignite as coal, Germany owned before the war 63 per cent. of the coal treasures of Europe, and Great Britain only 20 per cent. Germany was also more richly blessed with iron ore than any other European country; it owned 28·8 per cent. of Europe's total; France possessing 24 per cent., Sweden 15·6 per cent., Great Britain 9·8 per cent. and Spain 7·3 per cent.

Of her coal deposits, Germany has lost almost one-half. Computed down to a depth of 2000 metres, the pre-war aggregate was estimated at 472,000,000 tons; the present total is gauged at 225,000,000 tons. However, Germany is still rich in coal—especially brown coal or lignite. On the other hand, her iron industry has been almost completely deprived of its ore bases. Germany now possesses practically no ore deposits with a content exceeding the minimum standard of workability adopted in the United States (45 per cent. *fe*).¹

With admirable energy the leaders of the German heavy industry have turned their attention to the task of making good the losses suffered by them in Lorraine and Luxemburg, in the Saar Basin,² and East Upper Silesia, and have strenuously endeavoured to recover their position on the international market—a position which had been almost destroyed by the Ruhr Raid and the Micum agreements. With the aid of the compensations paid by the Reich to the undertakings which had been deprived of their mines and foundries, the owners welded together the fragments left to them into new and highly capable economic organisms. As soon as the stabilization of the currency opened out a clear view of the situation and rendered it possible, with the help of foreign capital, to carry out a thorough rationalization of the industry, its leaders exploited for that purpose every utilizable achievement of modern science, and succeeded, in a surprisingly short time, in countervailing to a remarkable degree the losses of raw material and physical energy which they had experienced.

In regard to physical energy, efforts were made in two directions: first, the utilization of the coal left to Germany was augmented by mechanization in the mines, by improved exploitation of the coal by-products, and

¹ The iron percentage in the Lahn and Dill district is 42 per cent., and in the South German district 38 per cent.; when dressed it reaches 50 per cent.

² With one exception, the iron works in the Saar Basin have been alienated from Germany by the pressure which the French Administration of the Coal Mines has exercised.

by cheapening the transport of energy; secondly, the extensive water power of South Germany was more intensively exploited and the lignite deposits developed to such an extent that the production, which in 1913 had been only 87,000,000 tons, was increased by 1926 to 139,000,000 tons. The electro-motors in use in manufacture and handicraft in 1907 aggregated 1,500,000 h.p.; in 1925 the total was 11,600,000 h.p.; Germany is covered with an almost continuous network of power lines.

In the production of electric current, Germany now stands second only to the United States, and leaves Great Britain and the rest of the world considerably behind.¹ The increasing utilization of coal is to be seen in its successful liquefaction, in the long-distance supply of gas, and the marked improvements in thermotechnics.

The results of all these improvements are visible in every branch of German economy.

Although, under the Treaty of Versailles, Germany was deprived of 45 per cent. of her blast furnaces and the number of those left to her has not been materially increased, the capacity of those retained has been augmented in the same degree as the capacity of the steel and rolling works, so that the productivity of the German iron industry within the present curtailed area of the country has not only overtaken the output of the undiminished pre-war territory, but even exceeds it by 30 per cent.² The output of pig iron and raw steel is greater than in any other European country, and the technical organization of the works is inferior to that of no foreign competitor.

But neither as regards coal nor iron nor steel has the pre-war productivity been regained; nor is the pig iron capacity by any means adequately exploited. Hence it is only natural that the balance of foreign trade in connection with the heavy industries has greatly deteriorated; the

¹ Cf. *Electrical World*, 1928 (Vol. 90, p. 1181).

² Cf. Werner, "Fragen aus der neuzeitlichen Elektrizitätswirtschaft. Vortrag auf der Mitglieder-Versammlung des Vereins Deutscher Eisen- und Stahl-Industrieller in Berlin, am 13 Juni 1928."

sole exception was during the year 1926, which was under the influence of the British coal strike.

(A) THE PRODUCTION OF THE GERMAN HEAVY INDUSTRIES * IN THOUSANDS OF TONS

Year.	Coal.†	Iron Ore.‡	Pig Iron.	Steel Ingots.	Rolling-work Products.
1913					
Pre-war Territory .	209,495	19,309	8,502	18,935	16,699
1913					
Post-war Territory .	160,137	10,920	2,172	11,772	10,968
In percentage of 1913					
Pre-war Territory .	76.4%	56.5%	25.5%	62.2%	65.7%
1923	88,713	4,936	1,603	6,305	5,487
1924	146,466	7,812	1,442	9,835	8,174
1925	163,797	10,177	1,892	12,195	10,246
1926	177,347	9,644	1,545	12,342	10,276
1927	186,840	13,103	—	16,311	12,867
1927 §					
In percentage of 1913					
Pre-war Territory .	89%	68%	18%	86%	78%

* Figures supplied by the "Verein deutscher Eisen- und Stahlindustrieller," and quoted in "Materialsammlung d. Heimatdienstes."

† Coal and lignite expressed in units of pit coal.

‡ Metallic iron according to "Statist. Jahrbuch f. d. Deutsche Reich," Jahrg. 1924, S. 97.

§ For iron ore, 1926.

(B) SURPLUS OF THE GERMAN COAL EXPORT (+)
AND IMPORT (—)

(Tons, 0,000 omitted.)

	1913.	1925.	1926.	1927.	Reparation Deliveries (extra).		
					1925.	1926.	1927.
Pit Coal	+ 24,06	+ 6,04	+ 25,99	+ 12,43	8,86	9,18	9,12
Lignite	— 6,93	— 2,26	— 1,94	— 2,53	—	—	—
Coke	+ 5,84	+ 3,71	+ 6,41	+ 5,75	3,80	3,90	2,90
Briquettes	+ 3,02	+ 1,40	+ 3,07	+ 1,79	0,45	0,52	0,44

(C) GERMANY'S IMPORT AND EXPORT OF COAL
(LESS REPARATION DELIVERIES) *

(Present values in marks, 000,000 omitted.)

	Import.				Export.				Import Surplus (-), Export Surplus (+).			
	1913.	1925.	1926.	1927.†	1913.	1925.	1926.	1927.†	1913.	1925.	1926.	1927.†
Coal, etc.	289	173	84	145	722	416	860	619	+433	+243	+776	+474
of which—												
Pit Coal	205	143	60	112	516	276	620	416	+311	+133	+560	+304
Lignite	69	25	21	27	1	1	2	1	-68	-24	-19	-26
Coke	13	2	1	4	147	104	166	158	+134	+102	+165	+154
Briquettes	2	3	2	2	58	35	72	44	+56	+32	+70	+42

* "Statist. Jahrbuch f.d.d. Reich," Jahrgang 1927.

† 1927, provisional data according to the "Monatliche Nachweise f.d. auswärtigen Handel Deutschlands, Dezember 1927."

(D) FOREIGN TRADE OF GERMAN IRON INDUSTRY *

(Present values in marks, 000,000 omitted.)

	Imports.				Exports.				Reparation Deliveries (extra).	Import Surplus (-), Export Surplus (+).	
	1913.	1925.	1926.	1927.	1913.	1925.	1926.	1927.		1913.	1927.
Iron Ore	227	222	176	364	8	4	3	3	—	-219	-361
Scrap and Waste	20	13	11	35	12	19	27	14	—	-8	-21
Pig Iron and Iron											
Alloys	18	24	11	35	66	20	40	34	3	+48	-1
Half-finished Iron											
Wares (Ingots,											
Crucible Steel											
Ingots, Billets,											
etc.)	2	22	21	42	65	14	48	40	—	+63	-2
Heavy Iron Goods†	45	137	114	253	679	526	673	660	12	+634	+407
Total	312	418	333	729	830	583	791	751	15	518	22
Export Surplus	—	—	—	—	518	165	458	22	—	—	—
Fine Iron Goods‡	25	18	24	57	585	715	698	765	19	+560	+708
Grand Total	337	436	357	786	1,415	1,298	1,489	1,516	—	—	—
Export Surplus	—	—	—	—	1,078	862	1,132	730	—	—	—

* "Statistik des deutschen Reichs," Vol. 339, I, and "Monatliche Nachweise f. d. auswärtigen Handel Deutschlands, Dezemberheft 1927."

† Heavy iron goods are: Tubes and drums, rods, sections, sheets, wire, permanent way material, boilers, machine parts and accessories.

‡ Fine iron goods are: Cutlery, tools and other utensils.

The great quantitative decline in the commercial exports of German coal—always excepting, of course, the year 1926—requires no elucidation. Although France has long since more than repaired the damages done to her coal mines in the war ¹ and the output of the Saar Basin is at her disposal (1926, 13,700,000 tons), Germany has to deliver to her every year enormous quantities of tribute coal. If this coal were included in the above table, the exports, despite the diminished production, would now (1927) equal the pre-war figures.

The production of iron ore has shrunk to one-fifth of what it was, whereas the value of the imports (1927) has increased by about 50 per cent. In the year 1913, 70 per cent. of the actual iron produced by the German blast furnaces was obtained from German ore; at the present time, 70 per cent. is from foreign ore. The place of the Lorraine and French ores has largely been taken by Scandinavian ore.² The heavier freightage expenditure thus involved is only in part compensated by the higher iron content and reduced consumption of coke as compared with the Minette ores. In respect to quantity and price the supply of iron ore is not unsatisfactory; the large amounts required and the number of countries prepared to sell make it possible for the well-organized German iron industry to exercise a decisive influence upon prices. But Germany reasonably entertains anxiety as to the future, inasmuch as a Swedish company has obtained possession of the North African ore mines and can now turn its attention to developing a monopoly of the phosphatic ores necessary in the Thomas-Gilchrist process. The prices of ores have not as yet risen in proportion to the depreciated purchasing power of money; but neither have the prices of iron, and

¹ The French coal production in 1913 was 41,000,000 tons, in 1925, 40,000,000, in 1926, 52,000,000.

² Cf. "Die Standorte der Eisen- und Stahlindustrien der Welt," Gutachten für den Ausschuss zur Untersuchung der Erzeugungs- und Absatzbedingungen der deutschen Wirtschaft von Dr. Buchmann, Prof. Mathesius, Dr. Petersen und Dr. Reichert, Berlin 1927, p. 22.

the French iron works enjoy, in any case, a great advantage in being able to cover their requirements out of their own mines, particularly as the production of Minette ore is cheap. This situation is accentuated by the fact that France is now richer in ore than any other country of Europe, nay, gauged according to the known, reliable and workable deposits, it is richer than any other in the world. On the other hand, even if the supplies obtainable by the German iron trade should remain permanently secured, the increased dependency of this vital industry upon foreign countries manifests itself economically in the startling deterioration in the balance of trade—and this dependency appears perennial.

The enormous demand for scrap iron caused by the rapid development of the Siemens-Martin process is still met mainly by domestic supplies. In order to retain these supplies for the home market, the export of scrap is prohibited; and yet in the year 1927 there was an increase in the import surplus. This, again, is one more illustration of the injuries done by the loss of Lorraine, East Upper Silesia and Posen—injuries aggravated by the compulsory surrender, after the Armistice, of enormous quantities of iron in the shape of war material, locomotives and ships.

Prior to the war the value of Germany's exports of pig iron and half-manufactured iron exceeded that of her imports by 100,000,000 marks. This export surplus has practically been wiped out by the loss of territory. In 1926, the year of the British coal strike, it was halved (156 million marks); but in the other years it completely disappeared (in 1925 the excess of imports was 12 million marks; in 1927, 3 million marks).

Mainly for the same reasons, there has been a considerable drop in the export surplus of heavy iron products such as girders and the output of rolling-mills generally.

The following figures are the returns of the "Statistisches Reichsamt":

IMPORTS AND EXPORTS OF HEAVY IRON GOODS

(In thousands of metric quintals.)

	1913.	1925.	1926.	1927.	1925 and 1927 in percentage of 1913.	
Imports . .	1,264	7,548	7,071	15,121	559%	1196%
Exports . .	39,432	22,040	31,791	27,268	56%	69%
Export surplus	38,168	14,492	24,720	12,147	38%	32%

It will be seen from the above that quantitatively the exports, in 1925 and 1927, had been reduced by roughly two-thirds as compared with pre-war figures. Taken, however, at present values, the decline is only about one-third, since, in general, the value of the labour put into the imports is less than that in the exports. The imports come chiefly from the Saar Basin, from Alsace-Lorraine, Luxemburg and Czechoslovakia, no less than 70 per cent. of the imports of heavy iron goods coming from the Saar in the year 1926. Belgium also sends to Germany considerable quantities of iron. Speaking generally, the labour in this matter is divided: the South West (the Saar district, Lorraine, etc.) supplies largely the rough product, and other German districts, especially the Ruhr, put in the finer work. An improvement will take place when the Saar Basin returns to Germany; for the time being, however, its incorporation in the French customs area means a severe loss to German economy.

Altogether Germany's trade balance reveals a severe falling off in the heavy iron industry as compared with 1913; the discrepancy in the year 1927 amounted to 500,000,000 marks. The industry exported, it is true, sufficient to countervail its requirements of raw material; but, beyond that, it provided only very slight surpluses wherewith to pay for other import items in the German balance of trade—though this takes no account of the

value of the small wares and of the electro-technical products and vehicles manufactured for export out of the ores imported.

The figures for 1927 express the exceptionally high domestic demands of that year; to some extent, too, they are due to the influence of the International Steel Trust. This trust was formed by Germany, France, Belgium, Luxemburg and the Saar district for the purpose of fixing quotas for steel production and for introducing penalties where those quotas were exceeded, and compensation where they were not reached; the indirect aim was to raise the price of exports. Lest Germany should suffer from the dumping of French iron exempt from customs duty and at low inflation prices, the German iron-masters agreed that the German quota should be fixed on the basis of the output of the first quarter of 1926, *i.e.* a period during which it was particularly low as a result of the severe economic crisis, whereas France and Belgium were producing heavily in consequence of the inflation of their currencies. France was permitted to import into Germany 3.75 per cent. of her foreign exports, and Luxemburg was permitted 2.75 per cent. Germany was also obliged, in 1927, to undertake to limit temporarily her foreign deliveries and her output quota. This led to the strange situation of Germany's being penalized for supplying her own market. Subsequently, in consideration of the readjustment of the German rolling-mill industry to domestic requirements, Germany's aggregate quota was divided, 72 per cent. being allotted to the home market and 28 per cent. to exports. For exceeding the home quota only one-half the penalty was to be paid, and, indeed, only one-fourth for the last quarter of the year 1927. For the export quota the original penalty of four dollars per ton was retained. Since the middle of March, 1928, the export limit for Germany has been only 25,000 tons in place of 75,000 tons. But even this arrangement fails to meet the necessity, under which the growing German output labours, of countervailing by heavier exports the

increased imports of raw material generally and the imports of semi-manufactured goods from the ceded territory.

In spite of all the technical progress made in Germany, the country's iron industry finds it exceptionally difficult to regain its old position on the international market. Fundamental changes of a lasting character have taken place throughout the world. Countries such as Italy, Spain and India, which before the war scarcely produced any iron at all, have created more or less important industries; while, although the British output seems to lag behind, other countries with an established production have considerably increased their capacity, the most striking case being that of the United States. Countries which constitute the chief new factors of the iron market are: France, Czechoslovakia, Poland and Luxemburg. Impelled thereto by the need of enhanced exports¹ and assisted by their depreciated currencies and cheap conditions of production, they have hitherto been able to exercise severe pressure upon international prices. Incidentally, it may be mentioned that Belgium has maintained her old position. W. Greiling calculates the German cost price of iron to be 5 per cent. higher than that of the western countries. It is, in particular, the German freight rates for the conveyance of raw material which impede exports. For distances under 200 kilometres, Germany's iron-producing industry has to pay about 1½ times as much as the Belgian and French industries. In addition to this, like all other German undertakers, the iron-masters rightly complain of the burdens which they have to bear in the shape of taxes, social contributions, excessive interest rates and reparation payments.

Those industries which manufacture high quality

¹ In the year 1913, France exported 9·7 per cent. of her pig iron and 10·6 per cent. of her steel and iron goods. Immediately after the incorporation of Alsace-Lorraine and the separation of the Saar Basin from Germany, *i.e.* prior to the great expansion of the really French installations, France found it necessary to export 45·2 per cent. of her pig-iron output and 46·9 per cent. of her steel. Cf. Pinot's computations cited in "*Vierteljahrshefte für Konjunkturforschung*," 1925-7, Sonderheft I. p. 63.

goods have a better prospect of overcoming the obstacles with which German trade is confronted on the international market. Whereas the export of heavy iron goods has never yet reached even the nominal value attained in 1913, so that the quantity now exported is substantially less than before the war, the exports of highly finished products, such as cutlery, tools and household utensils, have experienced a considerable rise in value. The values do not, it is true, tally with the general depreciation in the purchasing power of money, a situation which accords with the fact that exports generally (and minus the imports) have remained quantitatively below the level of 1913.

IMPORTS AND EXPORTS OF FINELY FINISHED GOODS *
(In thousands of metric quintals.)

	1913.	1925.	1926.	1927.	1927 in percentage of 1913.
Imports . .	408	244	245	477	117%
Exports . .	8641	7607	7918	8140	94%
Export surplus .	8233	7363	7673	7663	93%†

Cf. also: "Denkschrift über die Eisen- und Stahlindustrie," Wirtschafts- und Finanzabteilung des Völkerbundes, Conférence Economique Internationale, 17.

"Zur Analyse des Eisenmarktes," Vierteljahrshefte zur Konjunkturforschung, Sonderheft 1, Berlin, 1927.

I. W. Reichert, "Die Eisen- und Stahlindustrie," *Nauticus*, Berlin, 1928, p. 1 f.: "Weltwirtschaftliche Fragen der Eisen- und Stahlindustrien," *Weltwirtschaft*, April 1928, No. 4, p. 76.

"Eisenwirtschaft und Auslandsmarkt," *Deutscher Volkswirt*, 5 April, 1928, No. 27, p. 891.

W. Greiling, "The German Iron and Steel Industry," London and Cambridge Economic Service, 1925.

Cf. also the monographs and reports presented by Dr. Buchmann, Prof. Mathesius, Dr. Petersen and Dr. Reichert to the Committee appointed to investigate the conditions under which German economy produces and markets its goods: "Die gegenwärtige Lage der deutschen Eisen- und Stahlindustrie," "Zur Frage der Schrottpreise in den wichtigsten Eisenländern," and "Der Welthandel in Eisen und Stahl."

* "Statist. Reichsamt." † Incl. reparation deliveries 97 per cent.

One of the most highly developed German industries is machine building. Prior to the war the margin between Germany's exports of machinery and her imports was greater than in any other trade save textiles. The reports of the Union of German Machine Manufacturers, state that, after the war, a comprehensive rationalization in every stage of production and marketing was undertaken. By the introduction of the progressive assembly system and series manufacture, an increasing output per head of the workmen was achieved in many mills, so that the costs of production were diminished. Numerous amalgamations and combinations effected in the years 1925 and 1926 rendered possible strict specialization and a further reduction of selling prices.¹ Notwithstanding the continued rise of wages after the beginning of 1925 and the revival of the home market in the year 1927, the machine builders were able to keep their prices within quite moderate bounds.² Although the stimulation of demand was confined to the German market, the growing recognition of the excellent quality of German machines enabled the manufacturers to increase considerably their exports. In this way, machine building became Germany's most important export industry. It overtook the British industry and became second only to that of the United States. Nevertheless, the barter value of exports of machinery remained considerably behind the figures for 1913. In that year they totalled roughly 3,200,000 tons, but in 1927 only 2,600,000. The subjoined statistics include, besides machinery, electro-technical manufactures, vehicles and water-craft.

A comparison of the year 1913 with 1927 shows that it was possible, as regards value, to increase the export

¹ Cf. "Die deutsche Maschinenindustrie," Bericht des Ver. deutscher Maschinenbauanstalten über die Jahre 1925 u. 26. Bln. 1927, p. 20 ff.

² The price-index for machinery, as computed by the Statistisches Reichsamt, was in November, 1927, 136·9, as compared with an average of 136·3 in the year 1926—a year remarkable for its exceptionally depressed prices—although the general wholesale index rose from 134 to 140. Cf. "Bericht des Vereins Deutscher Maschinenbauanstalten," January 16, 1928.

surplus of the electro-technical industry in somewhat greater measure than was the case in the machine trade. The increase in the former was 25 per cent. and in the latter 16·6 per cent. Germany is one of the three principal exporters of electro-technical products, her chief competitors being the United States and Great Britain. But, whereas her share of the total exports in 1914 was 50 per cent., it is now only 25 per cent.; while Great

FOREIGN TRADE IN MACHINES, ELECTRO-TECHNICAL PRODUCTS AND VEHICLES

I. = Imports, E. = Exports, E.S. = Export Surplus.
The figures do not include reparation deliveries (in million marks).*

	1913.			1925.			1926.			1927.		
	I.	E.	E.S.	I.	E.	E.S.	I.	E.	E.S.	I.	E.	E.S.
Machines	80·4	680·3	600	76·6	656·3	580	67·3	713·5	646	130·6	831·9	701
Electro-technical Products	12·8	290·3	278	20·2	320·5	300	21·7	353·0	331	33·5	385·3	352
Vehicles	18·3	160·6	142	72·4	123·5	51	55·0	113·5	59	111·4	146·2	35
Water-craft	28·9	15·1	—14	20·4	56·9	37	31·9	58·5	27			
Total	140·4	1146·3	1006	189·6	1157·2	968	175·9	1238·5	1063	275·5	1363·4	1088

* "Statistik des Deutschen Reiches," Vol. 339, I, and "Monatliche Nachweise für den auswärtigen Handel Deutschlands, Dezemberheft 1927."

Britain's share has risen from about 20 per cent. to 25 per cent., and that of the United States from 16·6 per cent. to rather more than 25 per cent.¹ The reasons given for this redistribution of electro-technical exports are nationalistic trade impulses, the lack of capital in such importing countries as Russia, and Germany's own impoverishment which prevents her from according the necessary credits to countries which are now industrializing.

The improvements in the trade balance of the machine industry, the electro-technical industry and the vehicle industry have not been able to countervail the deterioration in the trade balance of the iron trade. The discrepancy appears still greater if regard be had to the

¹ Cf. Graf Vitzthum von Eckstaedt, "Die Elektroindustrie," Nauticus 19. Jahrg., Berlin, 1928, p. 12.

metals other than iron, which play a large part in machine building, electro-technics and the building of vehicles. In connection with these metals, the basis of the raw materials has been sorely diminished under the Peace Treaty especially by the cession of Upper Silesia. Gauged on the standard of the ore production of 1913, Germany lost in actual yield of metal 58.9 per cent. of her zinc and 38.9 per cent. of her lead.¹ The other metals Germany has always, in the main, imported either smelted or in the form of ore. A substitute was found in aluminium and other light metals, the working of aluminium having been given a great and lasting impulse by the war. The subjoined tables show the changes in Germany's production of common metals other than iron as well as her trade statistics both for the metals and articles made therefrom.

GERMANY'S OUTPUT OF COMMON METALS *

(In thousands of tons.)

	Extraction of Raw Ore.†		Zinc.	Lead.	Copper.	Tin.	Aluminium.
	Lead.	Zinc.					
1913 †	100.5	304.3	278.9	188.0	49.5	12.0	12.0
1913 §	61.5	125.2	111.0	148.1	49.5	12.0	12.0
	=61.1%	=41.1%	=39.7%	=78.7%	=100.0%	=100.0%	=100.0%
1924	36.5	58.4	40.9	67.4	71.1	2.5	18.7
1925	42.8	69.3	62.5	89.5	80.2	1.5	26.2
1926	53.9	104.4	73.7	96.2	85.4	2.3	29.5
1927	—	—	—	—	—	—	31.3

* Statistisches Jahrbuch f. d. Deutsche Reich, 1927," pp. 105, 354, and "Internationale Uebersichten," p. 59.

† Content of lead and zinc in thousands of tons.

‡ Pre-war territory.

§ Post-war territory.

|| For 1927 from "Wirtschaftsbericht der Commerz-u. Privatbank," 1. IV., 1928, p. 15.

The adverse character of Germany's trade balance in regard to the metal industries apart from iron, which

¹ "Statistisches Jahrbuch f. d. Deutsche Reich, Jahrg. 1924-25," p. 22.

existed even before the war, has accordingly been much aggravated.

**TABLE OF GERMANY'S FOREIGN TRADE IN COMMON METALS AND WARES MADE OF COMMON METALS *
OTHER THAN IRON AND IRON ALLOYS**

(In millions of marks at respective dates.)

I. = Imports, E. = Exports, S. = Surplus.

	1913.			1925.			1926.			1927.		
	I.	E.	I. (-) or E. (+) S.	I.	E.	I. (-) or E. (+) S.	I.	E.	I. (-) or E. (+) S.	I.	E.	I. (-) or E. (+) S.
(1) Ores (incl. Slag and Ashes)	230.5	17.0	-213.5	121.4	19.4	-102.0	140.6	30.9	-109.7	171.3	43.9	-127.4
(2) Common Metals and Alloys	549.8	446.9	-102.9	669.0	357.0	-312.0	468.9	427.7	-41.2	681.1	411.9	-269.2
(3) Metal Wares (of Common Metals)	18.0	120.1	+102.1	17.3	134.0	+116.7	21.7	136.1	+114.4	33.1	156.6	+123.5
	-214.3			-297.3			-36.5			-273.1		

* "Statistik des Deutschen Reichs," Vol. 339, I. p. 42-43, and "Monatliche Nachweise f. d. auswärtigen Handel Deutschlands, Dezemberheft 1927."

**A comprehensive view is provided by the
GENERAL BALANCE-SHEET OF THE METAL INDUSTRIES**

(Present values in marks, 000,000 omitted.)

	1913.	1925.	1926.	1927.
Export surplus in the Iron Industry	1,078	862	1,132	729
Export surplus in the Industries manufacturing Machines, Electro-technical Instruments, etc., Vehicles and Water-craft	1,006	968	1,063	1,088
Total	2,084	1,830	2,195	1,817
Import surplus in the Metal Industries, excluding Iron	-214	-297	-37	-273
Final Balance of the Metal Industries	1,870	1,533	2,158	1,544

Reference to the foregoing table shows that only under the exceptional conditions of the year 1926 has it been possible to increase the pre-war export surplus in the metal industries; while, if the reduced purchasing power of money be taken into account, no such increase can be recorded even for 1926. In the other years, and making due allowance for the reduced purchasing power of money, the export surplus is only about three-fifths of what it was in 1913. This means that Germany has not been able to overcome the effects produced upon her trade balance by her loss of mineral resources. The values placed at disposal for the purchase of food-stuffs by the metal trades after meeting their own industrial needs have been greatly reduced, notwithstanding all the efforts to maintain them and notwithstanding the progress achieved in technical organization. As the countries owning the ore deposits and possessing at the same time the requisite supply of physical energy tend more and more to exploit their raw materials for themselves, Germany's prospects of regaining her pre-war position—not to speak of exceeding it—can scarcely be regarded as favourable.

(B) *The Chemical Industry*

The more the "Empires" monopolized the earth's resources of special raw materials, the more important it became for German industry to utilize those raw materials which occur practically everywhere in the crust of the earth and in the earth's atmosphere. This was, of course, mainly the task of the chemical industry and, though that industry is not independent of the natural characteristics of the area in which it works or of the paucity of the raw materials to hand, matters in this respect stood better than they did for trades concerned mainly with the working up of material and not with changes in chemical constitution. Germany, for example, was in possession of coal, lignite, rock-salt, potash, limestone, gypsum and heavy spar, all of which were of the greatest service to

chemistry, while the lignite, especially in Central Germany, provided a source of cheap energy. Making use of these advantages, the German chemists, with their excellent training, had obtained for their industry before the war a leading position on the world's markets, and it looked as though this intellectual superiority would remain an imperishable asset. Yet, after all, the German chemical industry suffered severely from the effects of the war. The extent of the injuries it had experienced may be readily gauged from the commodity trade balance.

EXPORTS AND IMPORTS OF CHEMICAL RAW MATERIALS AND MANUFACTURES

(Present values in marks, 000,000 omitted.)

E. = Exports, I. = Imports.

		1913.	1925.*	1926.*	1927.*	Reparat. 1927.
Basic Slag	E.	29	3	2	9	—
	I.	18	29	37	42	—
Superphosphate, Guano, Bone-meal	E.	25	6	11	11	—
	I.	14	5	6	7	—
Nitrogen Compounds	E.	41	139	180	201	50
	I.	199	6	7	6	—
Other Chemical Raw Materials and Semi-products †	E.	20	20	25	25	1
	I.	22	38	34	45	—
Dyes and Dye-stuffs	E.	298	269	283	312	11
	I.	21	20	26	37	—
Explosives, etc.	E.	74	26	24	29	—
	I.	2	1	—	1	—
Other Chemical and Pharmaceutical Products †	E.	313	327	361	409	9
	I.	146	91	70	92	—
Total	E.	800	790	886	996	71
	I.	422	190	180	237	—
Export Surplus		378	600	706	759	
Potash		64	49	45	55	
Potassium Sulphate, Potassium Chloride		82	43	46	50	
Mineral Phosphates		-46	-18	-13	-25	
Total Export Surplus.		478	674	784	839	

* Less reparation deliveries.

† This item does not correspond to the group so named in the International Guide to Customs Tariffs, as that guide treats as superphosphates and nitrogen compounds a number of chemicals which the German statistics include under the miscellaneous item.

During the war the countries of the west developed their manufacture of explosives to an enormous degree. For this purpose they erected numerous chemical works, the greater number of which were subsequently adapted to the manufacture of coal-tar colours—an industry which had been not unsuccessfully introduced by them during the war. Previously, Germany had possessed a virtual monopoly in this line. In order to checkmate German dye-stuff manufacture, very gross means were employed; people resorted to the organized theft of patents, to regular espionage of German factories by uniformed chemists in the occupied territories—particularly during the Ruhr conflict—to prohibitive customs tariffs as in the United States, and even to a complete inhibition of imports as in the case of Great Britain. Such mercantilism, supplemented by subsidies, sufficed to destroy the predominant position held by the German colour industry. The world's consumption of coal-tar colours in 1924 was roughly the same as prior to the war (160,000 tons). But in 1913 Germany is estimated to have supplied 88 per cent.; whereas her share had sunk in 1924 to 46 per cent. The 42 per cent. which she has lost has gone largely to Switzerland, though France, the United States and Great Britain also take their share; while Italy and Japan participate, though to a very small degree. True, those countries produce, on the whole, only the coarse colours. Nevertheless, despite the general rise in prices, the value of the German exports was only about the same as in 1913 (312,000,000 marks as against 298,000,000 marks).

Prior to the war the Lorraine iron industry had supplied about three-fourths of Germany's requirements in regard to phosphoric fertilizers. As a result of the loss of Alsace-Lorraine, Germany's export surplus of basic slag (1913, 11,000,000 marks) has given place to an import surplus of 33,000,000 marks (1927). The export balance in other phosphoric fertilizers has been reduced to a minimum. This decline has occurred notwithstanding the fact that German agriculture has largely neglected

the products of the phosphate industry and now, in many cases, prefers the nitro-phosphates offered by the synthetic nitrogen concerns.

The decline in the exportation of explosives from 74,000,000 marks to 29,000,000 marks is due to the compulsory disarmament of Germany. All these retrogressive movements must be regarded as the result of a permanent organic change. It is typical of the depression in the chemical trade that the decline in the output of sulphuric acid is greater in Germany than in any competing country; indeed, whereas the German decline amounts to 33 per cent., a total increase of roughly 25 per cent. between 1913 and 1925 is recorded by all other countries taken together.

In the above table there is only one export curve of a noticeably rising character, namely, in the nitrogen compounds group—a group which we created. In this case there has been, since 1913, a fall of about 184,000,000 marks in imports, and an almost equal rise in exports.¹ This diminution of imports and rapid rise in exports has taken place in face of the fact that the use of nitrogenous fertilizers has greatly increased in Germany. It is mainly due to the introduction of the Haber-Bosch process by which the inexhaustible supply of nitrogen in the air is drawn upon for manufacturing purposes. During the war the synthetic compounds obtained in this way were used for the preparation of explosives; now they serve to provide artificial manures for the fertilization of the field. In the year 1913 the world's total production of actual nitrogen (N. = 100 per cent.) amounted to 771,000 tons, of which 56 per cent. was in the form of Chile saltpetre. In 1925, 1,250,000 tons were produced; only 30 per cent. of this was Chile saltpetre, whereas 44 per cent. was synthetic nitrogen. Germany, with her output of 450,000 tons as against 385,000 tons in Chile, is the chief

¹ In 1913 there was an import surplus of Chile saltpetre amounting to 166 million marks, whereas in 1927 there was an export surplus of 5 millions. The similar figures for sulphate of ammonia were export surplus in 1913, 5 millions, export surplus in 1927, 101 millions.

producer. As the "other chemical and pharmaceutical products" of Germany show an export increase accounted for roughly by the depreciated purchasing power of money, we have to thank the nitrogen output for the rapid increase in the export surplus of the chemical industry as a whole between 1925 and 1927, and for the fact that, in the year 1927, the surplus was higher than in 1913 even if consideration be given to the general rise of prices.¹ Even if the export surplus in potash and the import surplus in mineral phosphates be taken into account, this does not essentially change the situation.

Over against the two great basic industries we place two which produce consumption goods, namely, the textile industry and the leather trade. It is typical of both of them that, like most German industries, they obtain their raw material chiefly from abroad.

(C) *The Textile Industry*

If we include the clothing trade, the textile industry gives employment in Germany to a far larger number of persons than any other branch. As regards the number of spindles, it follows next after the United States and Great Britain. Prior to the war the value of exports was greater than that of any other German industry. Nevertheless, even then the export surplus of finished goods

¹ Cf. also: C. Ungewitter, "Chemisch-Industrielle Wirtschaftspolitik 1923-24 (Verein zur Wahrung d. Interessen d. Chem. Industrie Deutschlands)," Berlin, 1924. "Monographie über die chemische Industrie, bestimmt für das Komitee B des vorbereitenden Ausschusses der internat. Wirtschaftskonferenz des Völkerbundes," Berlin, den 30 Sept. 1926.

W. Ebert, "Die chemische Industrie Deutschlands," ein Beitrag zur Wirtschaftskunde, Berlin-Leipzig, 1926.

Fritz Redlich: "Die volkswirtschaftliche Bedeutung der deutschen Teerfarben industrie," Staats- u. sozialwissenschaftliche Forschungen, Heft 180, München-Leipzig, 1914.

Flemmig, "Die deutsche Farbensaufuhr 1927," deutsche Bergwerkszeitung Nr. 54, v. 3. III. 28.

Alfred Stock, "Die Aufgaben der Chemie, einst, jetzt und künftig, Technik u. Wirtschaft, Jahrg. 1914," 6. Heft.

Alfred Marten, "Farbstoffindustrie u. Farbstoffzölle in den Vereinigten Staaten von Amerika seit dem Kriege," Berliner Dissertation, 1928.

(piece-goods, clothing, etc.) was not sufficient to counter-vail the import of raw materials and yarns. Since the war the deficit has been greatly increased.

(1) TEXTILE RAW MATERIALS: IMPORT SURPLUS

	(Tons, 000 omitted.)				(Marks, 000,000 omitted.)			
	1913.	1925.	1926.	1927.	1913.	1925.	1926.	1927.
Raw Silk	5	4	3	4	145	135	100	158
Wool	191	135	149	195	373	488	446	583
Cotton	485	384	298	475	578	762	467	660
Flax, Hemp, and Jute .	291	209	148	257	197	224	139	201
Total	972	732	598	931	1,293	1,609	1,152	1,602

(2) YARNS: IMPORT SURPLUS

	(Tons, 000 omitted.)				(Marks, 000,000 omitted.)			
	1913.	1925.	1926.	1927.	1913.	1925.	1926.	1927.
Artificial Silk and Floret Yarns	2	—	2	6	23	33	26	64
Woollen Yarn	10	16	10	25	17	169	58	203
Cotton Yarns	17	55	16	58	55	343	129	272
Flax, Hemp and Jute Yarns	21	20	5	26	31	51	12	60
Total	50	91	33	115	126	596	225	599

(3) PIECE-GOODS AND CLOTHING: EXPORT SURPLUS

	(In thousands of tons.)				(In marks, 000,000 omitted.)			
	1913.	1925.	1926.	1927.	1913.	1925.	1926.	1927.
Silk and Artificial Silk Piece-goods	4.4	4	4	6	104	121	146	160
Woollen Piece-goods . .	29	13	19	21	227	188	256	258
Cotton Piece-goods . .	60	7	25	10	375	220	346	219
Flax, Hemp, Jute Piece-goods	6	22	28	17	23	39	45	33
Clothing (incl. Underwear)	10	3	4	4	111	87	96	123
Felt Hats, etc. . . .	0.2	0.5	1	1	—6	12	20	10
Miscellaneous	19	13	13	14	111	99	92	111
Total	128.6	62.5	94	73	957	766	1,001	914

(4) EXPORT TRADE BALANCE IN THE TEXTILE INDUSTRY

	(In millions of marks.)			
	1913.	1925.	1926.	1927.
Import Surplus of Raw Materials .	1,291·8	1,608·7	1,152·4	1,602·5
Import Surplus of Yarns . . .	126·3	595·8	224·6	598·6
Total	1,418·1	2,204·5	1,377·0	2,201·1
Export Surplus of Clothing and Piece-goods	945·7	766·1	1,010·9	914·6
Total Import Balance	472·4	1,438·4	366·1	1,286·5

The years 1925 and 1927 show an adverse balance three times as heavy as that of 1913. Despite cheaper raw materials, reduced imports and increased exports, there was likewise an adverse balance even in the exceptional year 1926. What are the causes?

Leaving aside for the present the jute industry, the textile mills obtained an advantage after the Dawes Agreement came into force, inasmuch as the German people were under the necessity of replacing their clothes and underwear, which they had found it almost impossible to do during the war and the subsequent currency inflation. However, even then they were able to do so only in very modest measure. Despite the enormous needs of the people, the consumption of cotton, of imported wool and of silk remained for a considerable time absolutely and per head of the population far behind the figures for 1913; only in 1927 were these approximately reached.

A special position is taken by the artificial silk industry, which was in its infancy at the outbreak of the war. Without perceptibly affecting the consumption of other textiles, artificial silk has experienced a vigorous development in Germany. Nevertheless, it has remained far behind that of the United States. Italy too—largely owing to its not being fettered by patents—was able to surpass Germany. It is noticeable that, since 1926, the

consumption in Germany has increased more rapidly than the output. However, the manufacture is being hurried on.

Despite the reduced consumption as compared with 1913, the imports of yarns and fabrics experienced, according to reports to hand, a rise, while, allowance being made for the depreciation of currency, the exports were reduced. This is due to the following three causes :

(1) The redistribution of frontiers in Europe. The productivity of the French wool industry has been greatly enhanced by the modern character of the "replacement" factories of Northern France and the annexation of Alsace. The cotton industry of France was expanded by the addition of 40,000 Alsatian looms and 1,900,000 spindles. The exports of the highly developed cotton industry of Alsace formerly constituted an important asset in Germany's trade balance. Its exports to Germany now have a reverse effect ; although, since 1925, the customs free quota has disappeared, these Alsatian exports are still very considerable. Of the cotton fabrics imported by Germany in 1927 (240,000 metric quintals), 33·2 per cent. came from Alsace-Lorraine and only 21·8 from the rest of France.

The conditions which have affected Alsace find their counterpart in Czechoslovakia and Poland. The former of these countries is cut off from its old Austrian markets and the latter from its extensive selling territories in Russia. Consequently, both are forced to seek fresh export possibilities for their cotton and woollen fabrics. Naturally they tend to depress the absorptive and but slightly protected German market adjoining their frontiers. The severest effects are felt by Germany in regard to cotton products. True, Germany was, even before the war, dependent upon imports for finer yarns, especially those produced in the more favourable climate of Great Britain. This does not, however, explain the fact that the foreign share in supplying Germany's requirements of yarn rose from 3 per cent. in 1909 to 20 per cent. in 1925. Moreover, there streamed into

Germany, in 1927, five times the pre-war quantity of worsted supplied by the adjoining countries as a result of their over-production. Simultaneously, the German exports shrank by one-half, so that the export surplus was converted into an import surplus.

(2) Changes on the non-European markets. Even prior to the war the textile trade in particular met with no inconsiderable obstacles on the international market. This was largely due to the increasing competition of warmer countries with populations which, by reason of the climatic conditions under which they live, are less accustomed to the concentration of will-power essential in industries like the iron trade. In such countries with less energetic work-people the textile industry was able to establish itself. During the war and in the years immediately following, these countries paid far greater attention than previously to the spinning of their own fibre. In Eastern Asia, above all in Japan, cotton-spinning and more recently wool-spinning and weaving have undergone extraordinary development. The simple wants of the Oriental workmen, coupled with intensive exploitation of the mills, have enabled the Japanese industry to drive European and American goods out of the Asiatic markets. The United States was able to compensate for this loss by increasing her own manufacture of fabrics and outmanœuvring European competition in North America and even in South America. These changes affected chiefly Great Britain and Germany, the former largely on account of its high standard of wages.

(3) The handicapping of German industry by heavy taxation and high interest rates. An expert describes the conditions of the cotton-weaving trade in the following words :

“ In connection with the inquiry in the textile trade, the German calico manufacturers showed by accurate calculations that their costs of production had risen 140 per cent. as compared with pre-war years. This rise is due partly to the increase in wages, but still more to heavier taxation ; in addition to this,

there has been a disproportionate rise in the price of money; this last point is of importance in that the cotton industry of other countries works preponderantly with funds of its own, whereas the German industry is mainly dependent upon borrowed capital.”¹

This lack of capital prevented the German industry from according foreign customers such long credits as the exporters of other countries were able to do; it also prevented them from off-setting the variations in the price of raw material, and these variations were consequently reflected in the prices of the finished goods.

Again, the German bast fibre industry has to combat serious difficulties in regard to raw materials. The supplies of flax have been diminished by the agrarian revolutions in the east of Europe. Moreover, even in the hemp and jute trades a certain scarcity and irregularity in the supplies of fibre are observable.

For the full employment of its capacity, German jute spinning has of late years been largely dependent upon the export trade owing to the fact that the home consumption of jute manufactures has greatly fallen off as compared with pre-war conditions: in 1925 by 22 per cent., in 1926 by 50 per cent., in 1927 by 15 per cent. This was largely due to the considerable falling off in the exports of German sugar, which is packed in jute sacks. Further, an important part is played in the matter by the lopping off of the agrarian provinces of Eastern Germany, which formerly constituted an important market for the output of the German jute industry. However, a certain recovery took place in the year 1927, inasmuch as the fertilizer industry, the cable works and the rope-walks were kept busy.²

¹ Cf. H. B. Hammer, “Zur Lage der deutschen Baumwollweberei,” Wirtschaftsdienst, Jahrg. XII, Heft 9, Hamburg, 1927.

² Cf. also: W. F. Bruck, “Baumwollwirtschaft,” Handwörterbuch der Staatswissenschaften, Vierte Aufl., Art. Textilrohstoffe und Textilwirtschaft, Bd. VIII., S. 185.

v. Beckerath, Herb., “Die handelspolitische Lage der deutschen Textilindustrie,” Schr. d. V. f. S., Bd. 171, Leipzig, 1925.

Hans Kaiser, “Die Kunstseidenindustrie”; E. Raemisch, “Die

(D) The Leather Trade

Prior to the war, Germany was the largest leather exporting country of the world, and she has remained so to the present time. In pre-war years one-third of her output went abroad; to-day she exports one-fourth. Now, as then, the industry holds the fifth place among those having an export surplus.

Germany's own live-stock supplies a considerable proportion of the skins and hides required by the tanner and leather-dresser. Nevertheless, even before the war foreign raw materials preponderated. Consequently, the trade balance of the leather industry, like that of the textile industry, was and is adverse; if account be taken of the depreciated purchasing power of money at the present time, the deficit is roughly the same as in pre-war years.

The exports of leather and leather goods have fallen off greatly; the imports have considerably increased (in 1927, by more than 100 per cent.); the imports of raw materials likewise experienced a noticeable drop. This is not accounted for by the change in prices; it is due to a shrinking in the German output. The main cause is once more to be sought in the loss of territory. Among others, the largest German leather works was situated in

Seidenindustrie"; H. B. Hammer, "Die Baumwollweberei"; Henry Behnsen, "Die Wollindustrie"; Theodor Amfaldern, "Die Baumwollspinnerei," in *Nauticus*, 19 Jahrgang, Berlin, 1928, S. 28-60.

H. Frankfurter, "Hochkonjunktur in der Textilindustrie?" *Wirtschaftsdienst*, 22 Juli 1927, H. 29, S. 1084.

H. B. Hammer, "Die Lage der deutschen Baumwollindustrie," *Wirtschaftsdienst*, 4 März 1927, H. 9, S. 315.

H. Marzell, "Erholungsprozess der Juteindustrie," *Wirtschaftsdienst*, 18 November 1927, H. 46, S. 1783.

F. L. Mezger, "Ausbau der deutschen Kunstseidenindustrie," *Wirtschaftsdienst*, 4 September 1927, H. 36, S. 1364.

H. P.-G.: "Statistisches zur Ausbreitung der Kunstseide," *Wirtschaftsdienst*, 16 Dezember 1927, H. 50, S. 1954-55.

M. Smitz-Benario, "Die Flachskrise," *Der deutsche Volkswirt*, Nr. 41, 13 Juli 1928, S. 1409.

EXPORT TRADE OF THE GERMAN LEATHER
INDUSTRY *

(Present values in marks, 000,000 omitted.)

(Without Reparations.)

E. = Exports, I. = Imports.

		1913.	1925.	1926.	1927.
I. Raw Materials	E.†	123	11	49	78
	I.	538	317	242	421
Of which Calf Skins and	E.	104	7	40	72
Cow Hides	I.	416	238	173	299
Lamb Skins and Sheep	E.	3	1	3	2
Skins	I.	34	19	17	33
Other Hides and Skins	E.	16	3	6	4
	I.	87	60	52	89
II. Bark and other Tan-	E.	7	3	4	5
ning Materials	I.	47	40	26	48
Import Surplus, I. and II.		455	343	215	386
III. Leather and Leather	E.	357	296	294	330
Goods	I.	60	106	80	146
Export Surplus, III.		297	190	214	184
Total Import Surplus		158	153	1	202

* "Statist. Jahrbuch f. d. d. R.," Jahrgang 1927, und Monatl. Nachweise für den ausw. Handel Deutschlands, Dez. 1927.

† The reduction in the exports of raw material is to be explained by the fact that the foreign hides and skins which formerly went to Scandinavia and Belgium via Hamburg are now sent direct to those countries.

Alsace-Lorraine; moreover, other tanneries have been lost to Germany in the ceded territories of Schleswig-Holstein, Posen and Upper Silesia. These losses were, it is true, counterbalanced by mechanical improvements and the acceleration of the tanning process. But the increased capacity thereby attained does not make itself felt, inasmuch as, since 1924, the industry has never again reached the exploitation level of 1913.

This reveals once again Germany's reduced capacity to compete. The import surplus as compared with 1913 is

chiefly confined to descriptions of leather made by Germany herself. Foreign manufacturers supply them cheaper. Alsace-Lorraine and Luxemburg have succeeded in thoroughly maintaining their hold on the German market. The increased imports of leather and leather goods come chiefly from those countries; they amounted to 16 per cent. of the total German imports in 1925, and to 13·7 in 1926. It will be seen, therefore, that the circumstances here are much the same as in the textile industry.

In respect of exports, the German leather industry takes precedence of that of all other countries. However, the discrepancy between the German exports and those of the United States is dwindling rapidly. Great Britain and France compete for the third place, the latter country having acquired a number of first-class leather works by the incorporation of Alsace-Lorraine. The leather exports of all these countries have increased; whereas those of Germany have receded. The trade press attributes to two causes Germany's reduced capacity to compete in leather, namely: (1) the reduction of raw material supplies as a consequence of export prohibitions and restrictions on the part of certain competing countries, such as Czechoslovakia, whose leather industry has thereby obtained an artificial advantage as regards prices; (2) to the disproportionate increase in interest rates, taxation, freight charges and wages. Foreign countries are not handicapped to anything like the same extent by an expansion of costs. The freight rates for hides and fells have risen by roughly 100 per cent. as compared with those ruling before the war. As an example of the difference in the costs to be borne, it may be stated that the British leather trade seldom needs to pay more than 5 per cent. for borrowed capital. The German banks demand double this figure. It must be remembered, moreover, that the leather industry is one which demands heavy funds and that the capital which it uses is turned over slowly on account of the time required for tanning—a process which, in favourable circumstances,

takes at least six months to complete. Consequently, leather manufactured in Germany costs, even in that case, 3 per cent. more in the way of interest than leather tanned abroad. Only very few leather manufacturers can dispense with bank loans, as their own capital, like that of the leather merchants, dwindled away during the inflation and it has not been possible for them to recoup it.

An especially adverse curve is observable in the foreign boot trade. In the year 1913 the trade balance was favourable to the extent of 18,000,000 marks. In the year 1926 the export surplus had sunk to 2,600,000; in the year 1927 this gave place to an adverse balance of almost 6,500,000 marks. In this industry Germany still maintains her position as third exporter, following upon Great Britain and the United States but hard pressed by the new Czech industry. Germany forms by far the most important market for Czechoslovakian boots. The Czechoslovakian industry has also wrested from Germany her markets in Poland and the Austrian succession States. The German boot trade has also been ousted from other markets. The former German colonies in Africa and in the South Sea Islands are supplied by the industries of other countries—probably those of the mandatory States. The custom duties and import restrictions which hamper exportation in the German boot trade to a greater degree than before the war cannot be counter-vailed by cheap production. The social burdens alone weighing upon the industry are estimated at 2 per cent. to 3 per cent. of the selling price. This means a fivefold or sixfold increase on the pre-war burden. In addition, there is the higher burden of interest, which is the more keenly felt on account of the modern subjection of the industry to the changes of fashion and the consequent necessity for heavier borrowing.

An improvement in the leather trade and leather goods industry may result, now that there is a prospect of stabilized currencies in the west of Europe and a likelihood of the Czechoslovakian prohibition on the export of hides being withdrawn so as to cause a rise in the home

prices of the raw material. But the weightiest impediments to a vigorous development of this industry, as well as of others, are the losses caused by the Treaty of Versailles and the burden of tribute imposed upon Germany; and these can only be regarded as permanent.¹

(E) *Manufactures as a Whole*

GERMANY'S FOREIGN TRADE IN MANUFACTURERS' RAW MATERIAL, HALF-FINISHED GOODS AND FINISHED GOODS

Export surplus (+) and import surplus (–) in marks (ooo,ooo omitted).

Raw Materials and Half-finished Goods.	1913.	1925.	Finished Goods.	1913.	1925.	Total	
						1913.	1925.
I. Aggregate Totals of the Industry already dealt with	–1865	–2254	I.	+4026	+3112	+2161	+858
II. Timber and Allied Trades	–325	–383	II. Furniture and other Wooden Articles	+48	+55		
Of which:			Paper and Paper Goods	+206	+296		
Builders' and Joiners' Timber	–313	–328	Books and Music	+44	+35		
Wood for pulp	–38	–78	Celluloid, Galalith, Films	+27	+82		
Wood-pulp Cellulose	+26	+23	Toys	+102	+109		
Caoutchouc and Resins	–153	–225	Fine Instruments	+133	+196		
Stones and Earths, viz. Cement, other Stones and Earths	+34	+25	Caoutchouc Goods	+103	+82		
Animal Fats and Oils for Industrial Purposes	–22	–30	Glass and Glass Wares	+129	+159		
Mineral Oils	–167	–189	Earthenware and Porcelain (excl. tiles)	+90	+117		
			Paraffin and Goods made of Wax or Fat	+10	+9		
Total II. . . .	–703	–845		+892	+1140	+189	+295
Total I. and II	–2568	–3099		+4918	+4252	+2335	+1153
III. Miscellaneous	–1442	–1471		+442	+368	–1000	–1103
Total I.–III. . . .	–4010	–4570		+5360	+4620	+1350	+50

Taken together, the four great industries dealt with in the foregoing survey reveal an enormous falling off in

¹ Cf. also "Die Lederindustrie," Jahrgang 1927, Nr. 123, and Jahrg. 1928, Nr. 142, 143, 144, 145.

Günther Siegel, "Die Entwicklung der deutschen Schuhindustrie während der letzten zwei Jahrzehnte," Berliner Diss., 1927.

"Bedrängnis der deutschen Schuhindustrie," *Frankfurter Zeitung*, vom 14 Juni 1928, Nr. 438.

their total export surplus. Unfortunately, the other industries cannot yet be followed down to 1927 by means of the "International Guide to Customs Tariffs," but, in so far as it is possible to investigate the matter, the timber trade and allied industries—including, *e.g.*, paper and cinema films—are the only ones showing an increase in their export surplus; or rather they have developed an export surplus totalling 85,000,000 marks. The wood industry obtains a very important proportion of its timber from Germany's own extensive forests. Now that the stabilization crisis has been overcome, German forestry is in a very satisfactory position. Throughout the civilized world there is a distinct lack of unhewn timber; accordingly, the owners of standing timber are able to ask their own prices, though in Germany the situation is modified by the fact that the State, as the principal owner of forest lands, keeps prices within moderate bounds for social reasons.

The consumption products of the other industries given in the accompanying table have always been typical articles of export. For their manufacture cheap home labour was mainly employed, and their specific value made it remunerative to ship to great distances. In recent years, however, these industries, some of which export more than one-half their output, have, in no single case, been able to record an increase in their export surplus.¹ One industry has maintained its exports within the scope of the general rise of prices, namely, the manufacture of fine instruments, all other industries have dropped behind. In particular, if regard be paid to the depreciation in the purchasing power of money, the toy trade, which formerly enjoyed such a heavy export, has suffered severely from Japanese and American competition.

In fine, the export surplus of manufactured goods which, in 1913 amounted to 1,315,000,000 marks and averaged, in the four years ending 1913, 720,000,000

¹ Cf. "Vierteljahrshefte für Konjunkturforschung," 2. Jahrgang 1927, Heft 4, S. 32.

marks, fell off to 50,000,000 in 1925, and to 170,000,000 in 1927; 1926 was an abnormal year for the reasons stated on p. 99.

4. *Germany's Agricultural Trade Balance and Output*

CHIEF FOOD-STUFF IMPORTS. ANNUAL AVERAGE FOR THE YEARS 1911-13 AND 1925-27

(In marks, 000,000 omitted.)*

Import Surplus (-), Export Surplus (+).	1911-13.	1925-27.	
Bread-cereals (incl. Meal)	-200	-633	433
Sugar	+200	+19	181
Vegetables	-46	-107	61
Fresh Fruits (incl. subtropical and tropical)	-179	-323	144
Live Animals, Meat (fresh and con- served), Animal Fats	-467	-578	111
Dairy Products (incl. Milk, Butter, Cheese, etc.)	-188	-493	305
Eggs	-188	-278	90
Total	-1068	-2393	1325
Coffee, Tea, Cocoa	-294†	-344	50
Tobacco (Raw Tobacco)	-134†	-211	77
	-428	-555	127

* "Stat. Jahrbuch f. d. d. Reich und Monatl. Nachweise für d. ausw. Handel Deutschlands."

† For the year 1913 only.

The above table provides a comparison between three pre-war years and three post-war years; but it gives only the chief items. If the less important items be included, it will be found that the total excess of food-stuff imports over exports has increased from 2·8 milliard marks to 3·63 milliard marks, that is to say, by 1·45 milliard marks, or about 66 per cent. About one-half (738,000,000 marks) of this increase is due to bread-cereals (433,000,000

marks) and to dairy products—above all, butter and cheese (305,000,000 marks). Prior to the war the entire imports of bread-cereals (200,000,000 marks) were balanced by the exports of sugar (200,000,000 marks). Deducting the small export surplus of sugar from the present enormous import surplus of bread-cereals, these two items now show an adverse balance of 614,000,000.

The maximum import of 1911 to 1913 (living animals, meat, animal fats, etc.) is now second to the bread-cereals import. Taken together, the items bread-cereals, sugar, meat and dairy products now show an increased export deficit of over 1 milliard marks. Only in part is this to be explained by a rise in prices; in the main it is due to quantitative changes caused chiefly by the new conditions of German production—changes which are dealt with further on.

On the other hand, the increased export surplus seen in the other items of the table (viz., vegetables, fresh fruits, eggs, coffee, tea and cocoa) is principally a result of higher prices. A slight quantitative increase has taken place in vegetables and tobacco. The imports of tropical and subtropical fruits have increased in quantity by an amount roughly equivalent to the falling off in the imports of other fruits, especially apples. A similar change has taken place in the ratio of coffee to cocoa. The imports of the dearer coffee have fallen and those of the cheaper cocoa have increased as compared with pre-war figures. However, since 1925 there has been a continued rise in the imports of coffee. The number of eggs imported has remained stationary, but the value has risen by roughly 100,000,000 marks. In comparison with the great changes in the groups first mentioned, all these other changes are of slight significance. Taking together the products of the two groups briefly indicated, we obtain the results shown in the table on page 136.

Prior to the war the chief items in food-stuff importation were those of the second group, which, on the whole, comprises articles of general luxury. Now the principal part is played by Group I, which comprises every-day

IMPORT SURPLUS OF THE MOST IMPORTANT
AGRICULTURAL PRODUCTS

(In marks, 000,000 omitted.)

Import Surplus.	1911-13.	1925-27.	Increase.
I. Bread-cereals, Sugar, Live Animals, Meat, Animal Fats, Milk and Butter, Cheese . . .	655	1685	1030 = 157%
II. Vegetables, Fruit, Tropical and Subtropical Fruit, Eggs, Tea, Coffee, Cocoa, Tobacco . .	841	1263	422 = 50%

necessities; as already mentioned, these now have to be imported in greater quantities as a consequence of important structural changes in German economy.

(a) *Bread-cereals*.—During the three years 1911 to 1913, bread-corn was imported to an amount of 12 million metric quintals; in the three years 1925 to 1927, the imports were 23.6 million metric quintals, *i.e.* almost double the pre-war quantity (11.6 million metric quintals). In the year 1927, as a consequence of the bad harvest of 1926, the imports exceeded the average for 1911-13 by even 20 million metric quintals. The import surplus is necessitated (1) by Germany's loss of grain-growing districts, and (2) by the population of the reduced territory increasing at a greater rate than the production.

In 1913, 239 kg. of bread-cereals were harvested per head of the population, the figures for the ceded eastern districts being 570 kg. per head. The consumption of bread-corn per head of the population in the pre-war territory of the Reich averaged in the years 1911-13, 248 kg. per year, which would work out at 233 kg. for the present territory. Assuming the same harvest, the same consumption and the same population as those averaged in 1911-13, Germany would consequently have to import 15 kg. per head as a result of the cession of territory, or roughly 9,000,000 metric quintals at a cost

of about 118,000,000 marks. But the population of the reduced territory of Germany has increased from 59,000,000 (1911-13) to 62,900,000 (1925-27). Hence, basing calculations on the crops of 1913, the yield per head of the population in 1925-27 would be 218 kg., *i.e.* 30 kg. less than in 1911-13 or, in round numbers, 19,000,000 metric quintals. As, however, on the average, only 11,600,000 metric quintals more were imported, not even the amount necessary to countervail the loss of territory and the increase of population has been reached; consequently, a reduction in the consumption must have taken place.¹

(b) *Sugar*.—The reasons given above for the increased import surplus of bread-cereals also explain the falling off in the sugar exports, namely, the cession of territory and the disparity between increase of production and increase of population. In the year 1914² the sugar crop totalled 16,920,000 tons. Of this aggregate, 13,990,000 tons were produced in the area of present-day Germany; 3,000,000 tons consequently came from the ceded territory, *i.e.* almost one-fifth of the entire yield; assuming the sugar yield as 6:1, this means a loss of roughly 10,000,000 hundredweights of raw sugar; deducting the home consumption of the ceded territory in the east of Germany, there remained a surplus of about 7,500,000 tons of sugar coming from those districts, and having a value of 105,000,000 marks at the average prices obtained in 1925-27. Within the present frontiers of the Reich the yield fell from

¹ Though explained to some extent by the altered average in the age of the population and by the absence of any standing army, this reduction in the consumption cannot be as large as the crop returns would seem to suggest. According to these, the production of 1925-27 on the present territory was 35,000,000 metric quintals less than in 1913 ("Wirtschaft und Statistik," No. 18, 1927, and No. 1, 1928). True, the arable area has been somewhat reduced by conversion into grass-land, and the years 1926 and 1927 yielded poor crops; nevertheless, it looks as though the apparent reduction is partly to be accounted for by incomplete returns on the part of the farmers in post-war years and by over-statements before the war.

² In this year the first official returns for sugar-beet were introduced in the crop statistics.

13,990,000 tons in 1914 to 10,360,000 tons as the annual average for 1924-26, and to 10,850,000 tons in 1927. The discrepancy is thus about 3,000,000 tons of beet or 10,000,000 cwt. of raw sugar, that is to say, practically the same as the pre-war yield of the ceded territories, the value being about 150,000,000 marks. Taking into consideration the enhanced price of sugar, the total loss under this head resulting from the cession of territory and the falling off in production aggregates roughly 300,000,000 marks.

The war deprived the German sugar industry of its largest customers, namely, Great Britain and South America. The lack of hands, draught animals and nitrogenous fertilizers, coupled with the compulsory system of economy, reduced the sugar-growing area by almost one-half (1919-20). Even in 1927 it was still 8 per cent. less than the yield of 1914 for the territory of the Reich as curtailed by the Treaty of Versailles. The yield per hectare in 1927 was still about 20 per cent. less than that obtained in pre-war years. The keen competition of the Cuban cane-sugar industry, so greatly developed under American management, has hit European sugar-beet cultivation very hard. This factor, coupled with the subsidies given by Great Britain, Czechoslovakia and other States to their own industries, has prevented the German sugar producers from regaining their former dominating position on the international market.

In the year 1913 the potato crops of the whole Empire provided 278 kg. per head of the population; but the lost eastern provinces then produced 2032 kg. per head. Deducting the needs of the population itself and the potatoes required for feeding livestock, the surplus yield of the ceded eastern provinces may be set down at about 20 per cent. of the entire crop, its value being computable at 80,000,000 marks. Consequently, the falling off of all field crops, as a result of territorial losses, will aggregate about 365,000,000 marks (bread-corn 180,000,000 marks, plus potatoes 80,000,000 marks, plus sugar 105,000,000 marks).

In addition, it must be remembered that the ceded territories belonged to those having the greatest quantity of live-stock; consequently, leaving aside sheep and goats, the loss of these territories has resulted in a serious disparity between the country's total quantity of live-stock and the number of the population. This is illustrated in the subjoined tables. The total agricultural losses suffered by the German economy as a consequence of the cession of territory will certainly not be less than 500,000,000 marks annually.

LIVE-STOCK RETURNS *

(in thousands).

(1) Pre-war Area, (2) Ceded Territories, (3) Post-war Area.

	December 1, 1913.			Present Boundaries.			Increase, Decrease, since 1913 in Post-war Territory.
	Pre-war Area.	Live- stock. Ceded Territory and Saar.	Post-war Area.	1st Dec. 1925.	1st Dec. 1926.	1st Dec. 1927.	
Horses . . .	4,558.3	3,806.7	751.6	3,916.9	3,873.1	3,805.5	-1.2
Cattle . . .	20,994.4	18,474.4	2,520.0	17,202.6	17,221.1	17,982.9	-491.5
Of which Cows two years and older . .	11,320.4	9,972.6	1,347.8	9,958.1	10,031.5	10,272.9	300.5
Pigs . . .	25,659.2	22,533.4	3,125.8	16,199.6	19,423.6	22,880.3	346.9
Sheep . . .	5,520.8	4,987.8	533.0	4,752.8	4,080.5	3,813.4	1,174.4
Goats . . .	3,548.5	3,163.8	384.7	3,796.5	3,483.8	3,217.8	53.5
Geese . . .	—	5,850.8†	—	5,339.4	5,494.5	5,481.3	-369.5
Ducks . . .	82,702.0†	2,086.3†	10,794.6†	2,042.8	2,410.0	2,533.4	477.1
Domestic Fowls . . .	—	63,970.3†	—	64,122.1	67,800.1	71,033.1	7,062.8
Beehives . .	2,630.8†	2,299.3†	331.5†	1,550.8	—	1,630.4	-668.9

* "Statistische Jahrbücher des Deutschen Reiches" und "Wirtschaft u. Statistik," No. 3, 1928.

† Census of December 2nd, 1912.

LIVE-STOCK PER 1000 OF THE POPULATION *

	Horses.	Cattle.	Of which Cows.	Pigs.	Sheep.	Goats.
Pre-war Territory, 1913 .	68	313	169	383	82	53
Ceded Territory and Saar Basin, 1913	112	377	202	468	80	57
Post-war Territory less Saar Basin, 1913 . .	63	306	165	374	83	52
Ditto, 1925	62	272	160	256	75	60
Ditto, 1927	60	284	162	361	60	51

* Population in the pre-war territory	1913 = 66,98 millions.
" " post-war territory	1913 = 60,30 "
" " ceded territory and Saar Basin . .	1913 = 6,68 "
" " post-war territory less Saar Basin .	1925 = 62,40 "
" " post-war territory less Saar Basin .	1927 = 63,30 "

The figures of the above tables explain in general—

(c) The movements in the imports of meat, meat products and dairy products. There has been a great increase in the imports of beef: 1911-13 = 30,000 tons, 1924-26 = 129,000 tons, and 1927 = 150,000 tons. These figures reflect Argentine competition. Moreover, in fattening cattle for the market, the turnover of capital is slow; consequently, with Germany's post-war rates of interest, this industry has become less remunerative. Computed as for the present territory of Germany, the stock of pigs in 1927 slightly exceeded those of 1913; and the imports fell off accordingly. The imports of pork were:—1911-13, 15,710 tons; 1924-26, 56,240 tons; 1927, 31,768 tons. Among imported animal fats lard has a long lead; the imports were:—1911-13, 103,344 tons; 1924-26, 114,526 tons; 1927, 96,745 tons. In 1924-27 the imports of animal food-fats totalled altogether about the same amount as in 1911-13. The exports of meat, meat products of all kinds, lard, tallow, etc., are almost negligible as compared with the imports; in 1927 they aggregated all told not as much as 5,000 tons.

An extraordinary rise has taken place in the import surplus of butter and cheese.

IMPORT SURPLUS

(Quintals, 000 omitted.)

	1911-13.	1925.	1926.	1927.
Butter . . .	650	965	978	1,083
Cheese . . .	220	663	630	720

The considerable pre-war imports of cream from Denmark have certainly disappeared; this, however, affects but slightly the total results. According to the animal census of December, 1927 (see Table), the stocks of milch cows has continually increased in recent years; computed for the present reduced territory of the Reich, it now considerably exceeds the stock in 1913. That the increase in the number of cows lags slightly behind the percentage increase in the population may be left out of account, as there is probably a corresponding increase in the average milk yield.

But the dairy industry was so neglected during the war that it possesses nothing like the capacity which previously characterized it and nothing like that of Denmark or Holland.

Poultry breeding, on the other hand, has vigorously developed.

Except as regards milk, pigs and poultry, it has not proved possible adequately to expand the productivity of the increasing population within the reduced area so as to fill the gaps produced in the feeding of the German people by the loss of territory.

In agriculture, as in the manufacturing industry, there has been no lack of effort to increase the output, albeit there is still much to be done in the way of developing the system of agricultural training and advice as well as the organized marketing of the agricultural output as a whole. Nevertheless, German farming has benefited by what has been accomplished on the part of the machine industry and the chemical industry since they turned

their attention from the manufacture of armaments to the problems of agriculture.

The works' census of 1925 revealed an exceptional growth in the use of machinery.

Number of machines owned by farmers in Germany in 1906-7 and 1924-25 (present territory of Germany excluding the Saar Basin):¹

	1906-7.	1924-25.	1925 compared with 1907 = 1.
(1) Mowing Machines . . .	307,454	1,023,381	3'3
(2) Hoeing Machines . . .	14,633	145,638	10'0
(3) Potato Diggers . . .	10,064	173,703	17'3
(4) Threshing Machines . . .	732,772	1,055,151	1'4
(5) Rough-Grinding Mills . . .	25,588	319,670	12'5
(6) Separators . . .	295,795	1,415,699	4'8

The use of nitrogenous and potash fertilizers has increased enormously since the war. Phosphates are employed in smaller quantities; and lime, as a fertilizer, is used to a much smaller amount, although its employment is steadily increasing.

QUANTITIES OF ARTIFICIAL FERTILIZERS USED IN GERMANY

(Present area less Saar Basin.) (Weight in tons, 000 omitted.)

	1913-14.	1921-22.	1922-23.	1923-24.	1924-25.	1925-26.	1926-27.
Nitrogen (pure Nitrogen) . . .	185	300	288	255	340	330	400
Phosphoric Acid . . .	555	312	295	167	371	380	475
Potash (pure Potash) . . .	496	775	695	538	663	609	717
Lime . . .	3,436	1,156	967	806	1,251	1,241	1,434

The employment of foreign force-fodder, which had been in comparative disuse for so long a time, approxi-

¹ "Wirtschaft und Statistik," No. 18, 1927, S. 764-65.

mated closely in amount, in 1927, to the heavy quantities used in the entire Empire prior to the war, a fact from which it may be deduced that animal breeding is being vigorously prosecuted.

FODDER AND FODDER MATERIALS. EXCESS OF
IMPORTS OVER EXPORTS

(In metric quintals, 000,000 omitted.)

	1911-13.	1925.	1926.	1927.
Fodder	68	21	29	50
Of which Barley and Maize	40	14	22	38
Raw Materials	15	15	17	19

(Corresponding values in marks, 000,000 omitted.)

Fodder	816	379	424	806
Raw Materials	460	598	608	670

Despite all the foregoing, success has not been achieved. German farming is in a distinctly depressed state; nor is there any prospect of an early increase of output. The reasons for this depression are explained in the following paragraphs.

(B) THE CAUSES

Whence comes the unfavourable development of German foreign trade, and whence the inability of German production to meet, not only Germany's politico-financial liabilities, but also the requirements of the country's dense and increasing population? The causes ascertained in the foregoing review will here be submitted to investigation as regards their chances of persistence; an examination will also be made as to the character and probable persistence of their effects.

I. CAUSES OF A LASTING CHARACTER

(a) *The Rearrangement of European States and the Political Impediments to Foreign Trade*

That the World War greatly promoted the tendency to economic self-isolation was a necessary outcome of the ideas which proved victorious in that war. During the era of railways, world-empires or continent-States had acquired vast power; the World War was a war of these States against the populous national States cramped up in Central Europe. English writers have justly stated that modern imperialism is a revival of the mercantile idea and have consequently called it neo-mercantilism. Out of the struggle among the territorially small Powers of the Middle Ages there arose Europe's national States, the movement being accompanied by a desire on the part of each to make its army, its navy, its customs system and every other means at its disposal subservient to the evolution of the country's own productive forces and to the expansion of its economico-political power. Herein originated the old mercantilism, a movement which continued down to the nineteenth century. Then came a revulsion which found expression in the free-trade movement, this, in its turn, being interrupted by the rise of the neo-mercantilism pioneered by the two great compact and self-contained States of North America and Russia. With their geographical expansion, these two countries combined a commercial policy which most effectually accelerated the industrialization of their own extensive territories by means of protective tariffs. Greater Britain soon followed this lead, and British goods in the colonies and possessions were placed under the special protection of preference tariffs. Since the war, Great Britain herself has vigorously cultivated this policy of economic union within her widely scattered empire; she has developed the protection of the so-called key industries, and has introduced subsidies and prohibitions, and has thus drifted further and further away from her

free-trade policy of the middle of the nineteenth century. France has all along remained strictly protective; her tariffs have always been high, and she has included her extensive colonies in the customs system of the home country.

But the allied "Empires" regarded it as contributory to their interests to inscribe the motto of "nationality" upon their standards and, with the help of this slogan, to weaken Russia and Germany and dismember Austria-Hungary. Hence the political and economic disintegration of Central Europe, the formation of senseless frontiers, the increase of the customs boundaries by 11,000 km., and that intensification of nationalism which, following the example of the "Empires," endeavours, by prohibitive customs tariffs, to develop every branch of national economy within very small areas.

These conditions, aggravated by the impoverishment of Russia, the loss of capital on account of the war and the indebtedness to the United States, have deprived the continental industry of Europe of its former dominant position. Technico-economic organization of the energetic type adopted in North America meets with impediments in Europe which international industrial combines can surmount only by slow and painstaking effort. These impediments are particularly injurious to Germany, because her exports have always gone chiefly to European countries. In 1913, 75.2 per cent. went thither, and in 1927, 73.9 per cent. In 1913, Germany's European trade showed an export surplus of 1,800,000,000 marks; in 1925 and 1927, this surplus had declined to 500,000,000; and even this vanishes completely if we deduct the reparation payments.¹

¹ Germany's trade with the rest of Europe is illustrated by the following figures (present values in marks, 000,000 omitted):

	Imports.	Exports.	Surplus.
1913	5,889	7,680	1,791
1925	6,527	6,396	—131
1926	5,086	6,895	1,809
1927	7,483	7,976	493

In the official returns the export figures for 1925 and 1926 are exclusive

The United States and Japan are penetrating successfully into the markets of South America and East Asia. British India and Eastern Canada are developing into powerful manufacturing countries; South America, Australia and South Africa created, during the war, consumption industries, and these now compete keenly with the big European consumption industries which held the lead prior to the war, the British cotton industry being the most seriously involved. However, this industrialization of extra-European countries provides the European tool and machine manufacturer with good prospects for some time to come.

The World Economic Conference (1927) at Geneva endeavoured to counteract the general tendency to national self-isolation. Germany adopted its suggestions with great zeal. The sole notable success hitherto achieved, however, is the Franco-German Commercial Treaty. But even in so far as this is to be regarded as a success, it must be remembered that, in the years 1926 to 1927, 61.1 per cent., 57.8 per cent. and 57.3 per cent. respectively of the values of German exports to France consisted of reparation payments; and France has endeavoured, by means of fresh statutes, to extend further the scope of these payments. Consequently, three-fifths of Germany's exports to France are delivered against no consideration whatever. Consequently, too, the value to Germany of the new Franco-German commercial treaty appears very doubtful.

Again, the commercial treaties with Italy and Spain have been rendered in large measure illusory by the dictatorships dominating those countries. An Italian decree of March 25, 1927, requires civil and military authorities to give the preference to national firms in placing all orders. In Spain, people have gone so far as to require even private undertakings receiving assist-

of reparation payments and for 1927 inclusive. These reparation payments aggregated, in 1925 to 1927, 520,000,000 marks, 631,000,000 marks and 578,000,000 marks respectively, the deliveries going almost exclusively to European countries.

ance from the State—either by way of funds or tax rebates—to purchase from national concerns all their requirements in metal goods and machinery, and the carrying out of these measures is ensured by means of stricter customs control.

But the United States and Russia still keep the lead in this policy of self-isolation. There is something strangely contradictory in the fact that the United States has strengthened and heightened her tariff wall at the very moment that she has become the greatest creditor country in the world. By doing so she increases the liabilities of her debtors and restricts their opportunities of earning the profit essential to meeting those liabilities. In the commercial policy of the United States the interests of the big industrialists and those of the workmen find joint expression, since the latter regard protective tariffs as a guarantee of their high standard of living and as a corollary to the post-war restriction of immigration.

In Russia the industrial workmen are the most pronounced advocates of State self-isolation. In order to realize this object and to insure their political dominance, they have created a most effective instrument in the shape of foreign trade monopoly. Both in Russia and in the United States the farmers have to bear the costs.

In view of the ideas at present rife in the world, there can be but slight hope of any general reduction of customs tariffs and still less of the realization of a European customs union.

(b) Territorial Losses

Loss of territory is the most fundamental cause in the deterioration of Germany's trade balance. To what extent this cause is permanent is a question which it would be idle to inquire into. It is, however, necessary to focus attention upon the attitude assumed by those responsible for the relative clauses of the peace treaty and the annexation of Upper Silesia. In the negotiations on these points it was agreed that Germany could

obtain the raw materials and food-stuffs produced by the provinces shorn off just as safely and easily by way of importation as by way of production, since the only change made was a shifting of the frontiers which left the producing districts coterminous with Germany. From the standpoint of economics this argument is unsound, for the price of the foreign raw material comprises a profit or a ground rent, both of which the industry concerned saves when it owns the sources of the raw material, as the Silesian foundries formerly did in the south-east of their province, and the Rhenish-Westphalian foundries in their Lorraine and Luxemburg possessions. Indeed, how false the argument was has been clearly demonstrated by the deterioration of Germany's trade balance due directly to the loss of territory. The German economy is now forced to provide consideration for the materials previously obtained from her own sources of production—considerations in the form of commodities which, quite apart from the question of politically organized opposition, it is anything but easy to get accepted by foreign nations. As Sartorius von Waltershausen aptly says :¹—"In so far as exports are competitive, they are always under a menace, since there is nothing more callous than the international market, and national specialization of labour is bound to give way more and more to the generalization of production." The only reliable basis of national wealth is the natural wealth of mother earth. Hence it is a serious and often irreparable injury to a densely populated country if it be shorn of territories supplying it with a surplus of minerals or of agricultural produce.

The great significance of these points in connection with the movements of foreign trade is illustrated by the fact that the only industries whose post-war trade returns compared with pre-war returns show a proportionately greater surplus of exports over imports of raw material are wood-working and chemicals—above all

¹ "Volkswirtschaftliches System der Kapitalanlage im Ausland" (Berlin, 1907, p. 208).

the latter. In the case of the former, this is largely owing to the existence of a national forestry which exploits its monopolistic possessions on a rational and truly economic system. The case of the chemical industry is much more striking. Here, the progress of trade improvement has been far greater, and the reasons for the improvement very instructive. It is due partly to the manufacturers having been able to adapt widely distributed raw materials to new purposes (as in the case of artificial silk, aluminium and electron metal), and partly to such cases as the nitrogen industry, which has succeeded in liberating production from its dependency upon mother earth by drawing upon the inexhaustible stores of mother air for a raw material of essential value to the "nation lacking room." Although, by the help of exceptional technical achievements, it has been possible for the purely shaping industries—in contrast with the exploiting and material-making industries—to increase their exports, none of them has been able to do so in the requisite ratio to the import requirements of the increasing population.

The price curve of raw materials is unfavourable to the densely populated manufacturing countries. The brilliant progress of industry in the north-west of Europe—and particularly in Germany—prior to the war was mainly due to the fact that, for several decades, raw materials and food-stuffs streamed in abundantly from the vast territories of oversea countries that were being exploited with the help of European capital and modern means of transport. The price of these commodities was low because an extensive exploitation—frequently of an absolutely rapacious character—produced the most easily obtainable output of mine or soil, and the enormous shipments from these different young countries competed keenly with each other on the European markets. This situation changed towards the close of the nineteenth century because the settlement of the best areas was brought to completion and mining had to penetrate deeper into the bowels of the earth. Low prices con-

tinued only for produce of the tropics, the reason for this cheapness being that the exploitation of tropical countries with the assistance of modern science and technology was still in its infancy. The tightening of the prices for grain, copper, cotton, etc. produced an exchange ratio adverse to the interests of the densely-populated manufacturing areas of Europe. The European manufacturing industry was hampered by increasing burdens, in particular, by rising ground rents and monopolistic charges. In proportion to the value of labour put into the manufactures, it had to give in exchange for the same quantity of imports a greater quantity of exports than had hitherto been the case. Moreover, the exchange ratio was unfavourable even when, as in the case of natural petroleum, the absolute value remained unaltered but the cost of its production was reduced as a result of technical progress. It was essentially the growing scarcity of raw materials and food-stuffs which led to the general competition for colonial possessions and for spheres of interest during the last quarter of the past century. As the last in the field, Germany managed to acquire only a modest colonial territory; but, though the area was small and the period of apprenticeship short, her colonies had made excellent progress during the few years preceding the war.

One of the principal causes of the World War was the desire of the "Empires" to obtain possession of the sources of various raw materials and food-stuffs hitherto withheld from their grasp in the "districts of political depression"—their desire to close the "open door" advocated by Germany, to shut out the irksome competitor from influence in these districts and to get possession of her colonies. By their doing so, new and powerful monopolies have been created in raw materials such as petroleum. It is true that the prices of raw materials have, on the whole, remained moderate since the conclusion of the war. This is doubtless due chiefly to the diminished purchasing power of the European

market. But this diminished purchasing power loses significance in proportion as it proves possible or necessary for the countries of origin to work up their raw materials or to consume in increasing quantities the food-stuffs they produce. Consequently, it must be expected that the prices of natural products will rise in the future. Prices are not always or even generally an outcome of open competition among vendors of equal strength. The magnates of industry and commerce are often able to dictate the prices to weaker holders—especially where the matter concerns an exchange of natural products against manufactured goods. This is a factor which must not be lost sight of in estimating what the loss of her colonies means to Germany. Those colonies not only provided a field of activity for enterprising Germans; they also supplied Germany with important raw materials. This latter point was a matter of great significance also for the following reason: namely, by exporting from her colonies copper, phosphates, sisal, cotton, etc., Germany was able to exercise an influence upon the international prices of such commodities.

The loss of territory has also damaged the German trade balance in other ways. For example, it has severed from the German Tariff Union a number of important export industries, such as the Alsatian textile and leather trades, the cloth factories of Eupen and Malmedy, the foundries and other factories of Luxemburg and the Saar Basin. Notwithstanding the extension of the plants within the diminished confines of the Reich, it has not been found feasible either to countervail the losses in the way of industrial exports to foreign countries or to replace on the home market by national production the manufactured goods hitherto obtained from the lost territories. Nor does there appear to be any prospect of altering things for the better, inasmuch as German industry is too severely handicapped to compete effectively with other countries. Its burdens are chiefly determined by the imposed tributes and lack of capital.

(c) Lack of Capital and the Reparation Payments

Germany's lack of capital adds to her foreign difficulties a severe impediment to the evolution of the productive forces left her within her reduced area.

As already mentioned, Germany's lack of capital was caused by the war and the enormous expropriations after the war; for the war was paid for out of the national wealth.¹ Including the losses of capital abroad due to devaluation and alienation, the expropriations may safely be estimated at not less than 50 milliard marks. The devaluation of paper money commonly referred to as the chief cause of the lack of capital entailed rather a redistribution of the reduced national wealth than a destruction of that wealth. In the redistribution the enterprisers and the landowners profited, although they too lost their working capital (and, indeed, all their capital in the shape of money), and those undertakings severed from their fellow-concerns by the new frontiers also suffered a severe loss of values; while the middle classes and the better-situated workers were reduced to a state of indigency. The former especially have always been very decisive in determining the cultural development of Germany; utterly impoverished by the inflation, they helped to overcrowd the labour market and to aggravate the situation of the unemployed. Thus the nation as a whole has been reduced to a state of poverty; the wealth of its soil—mineral and agricultural—is too restricted to provide it with the necessities of life, no matter how severely it may toil; and yet attempts are being made to extract from this impoverished people a continuous stream of capital wherewith to meet the reparation liabilities.

Save as regards the interest on the industrial obligations, the individual producer is not conscious of his

¹ To get an idea of the amount of capital destroyed by the war, one need only recall the fact that the home war loans amounted to 98 milliard marks and that this sum was annihilated by the inflation.

contribution towards the reparation payments. He provides that contribution in the form of taxes, increased freight rates and higher prices generally, and is unable to distinguish the incidence of reparation from the other burdens imposed by the State. But the distinction must be clearly drawn by the national economist, since all taxes raised for home purposes either create or support possibilities of production, whereas the reparation payments act like the surge of the sea, encroaching further and further upon the area of an unprotected island. They gnaw at the national wealth and prevent it from being fed by the accumulation of fresh capital. No argument can be more specious and misleading than that defended by Mr. George P. Auld in his quotation: "A tax is a tax, whether the ultimate destination is the payment of a war debt due to fellow-citizens or to foreigners."¹ Mr. Auld even speaks of a taxpayer school to which, like himself, the French members of the Dawes Committee belonged. True, the repayments to America for the war indebtedness of France, Great Britain and the other Allies are specifically comparable with the reparation payments demanded of Germany; but the Dawes Committee was quite right in saying that payments within the realm necessitated by a debt owed by the State to the nation do not affect the national wealth as an entity. Moreover, the debts owed to foreign countries by the Allied Powers total far less than Germany's reparation obligations.

The effects produced upon German industry, commerce and finance by the continued withdrawal of capital for reparation purposes can be adequately demonstrated only in connection with the effects of the influx of foreign loans.

¹ George P. Auld, *op. cit.*, pp. 211, 224, 238.

2. THE INFLUENCE OF THE FOREIGN LOANS ON THE MANUFACTURING INDUSTRY AND ON THE INCREMENT OF CAPITAL

The causal connections to be discussed here group themselves round the foreign loans—loans which were intended to promote Germany's productivity and to enable the country to pay tribute.

(a) The Home Markets and the Industrial Boom

The loans which flowed into Germany produced there a species of boom. By joining forces to establish the Rentenbank, the German manufacturers and farmers had overcome the currency confusion. Then, when the conclusion of the Dawes Agreement had opened up an apparent prospect of peaceful development in Europe and had been followed by the restoration of national sovereignty and a likelihood of foreign loans, German enterprisers, both industrial and agricultural, set to work with extraordinary energy to repair the mechanism of production which had suffered during the ten years of overt and covert warfare. Optimists as they were, they did everything conceivable to counterbalance the losses of territory and to create an exportable surplus of commodities. Apart, however, from these hopes, the augmented taxation, the heavier social burdens and the gradually increasing weight of the reparation payments exercised direct coercion towards greater production. Many leading industrialists were persuaded that the obligation undertaken as regards tribute could be fulfilled; they were consequently determined to strain every nerve in their efforts to increase their exports in the measure demanded. Since the conclusion of the Dawes Agreement, every branch of the manufacturing industry—with which alone, for the moment, we are concerned—has worked exceedingly hard. The capacity

of the workers—both staff and hands—has also regained its old high standard. Coupled with commercial and technical rationalization, the output per man exceeds, in some branches, the pre-war figure, although the eight-hour day sets limits to the aggregate results. An impartial observer, Mr. Basil Miles, the American Administrative Commissioner at the Paris Headquarters of the International Chamber of Commerce, writes as follows in his Report of March 7, 1928, which "is based upon personal observations . . . and the latest reliable data available":

"Nowhere has the reorganization of industry, in the direction of rationalization and scientific management, been carried so far; nowhere is the modern in art, science and a new scheme of life in the present world of material advancement and fluctuating social relations more keenly developed. In no country is there a more openly avowed determination to make the new shoe fit the new last, and the fundamental strength and the universally recognized intelligence and industry of the people make success certain."

It was the determination of the enterprisers and the industriousness of the workers which generated the boom of 1924, a boom which—interrupted only by a period of reorganization—lasted till towards the close of 1927 and then began to ebb away. But, explicable as every boom in trade undoubtedly is on psychological grounds,¹ Germany owed the one referred to here largely to the influence of the foreign capital lent to her. This influence had commenced soon after the conclusion of the Armistice and had produced phenomena which must be briefly sketched here in order to contrast them more clearly with the movement following the London Agreement. Such a sketch will make it quite clear that, since the conclusion of the war, Germany has not experienced a single year in which the effects of her new conditions of existence can be readily seen in the returns of her output, of her home and foreign trade, of her consumption and her taxes; that is to say, can be at once

¹ Cf. W. Sombart, "*Das Wirtschaftsleben im Zeitalter des Kapitalismus*," pp. 568, 569, München, 1927.

recognized without taking into account the influences exercised by loans and financial policy. Many of the erroneous estimates of Germany's economic status are due to incomplete recognition of these influences.

Despite the real impoverishment of Germany during the inflation—an impoverishment which terribly reduced the people's standard of living and constricted the country's trade to half the pre-war volume—the four years following immediately upon the war were characterized by a pseudo-prosperity. Those years enriched certain individuals in certain branches of business; these individuals, leading a life of prodigality, gave foreigners, particularly in France, the impression of great wealth; hence, they were largely responsible for Poincaré's raiding the Ruhr in order to get possession of that wealth. In reality, the situation was such that the German people were on the verge of starvation; indeed, they were saved only by the Reichsbank's sacrificing its gold reserves, by the sale of property to foreigners and by the support which foreign speculators in mark currency unintentionally provided.¹ One way and another, the German economy received at that time an influx of altogether about 11 milliard gold marks. In the autumn of 1923, prosperity ended in the severest market crisis and the highest figures of unemployment known to German history.

The chief feature of the next four years is that, in virtue of the currency stabilization, another 11 milliard marks gold flowed into Germany, this sum including twelve hundred millions which had fled the country.¹

According to the "Konjunkturforschungs-Institut," the first signs of economic improvement became noticeable in July, 1924, that is to say, before the Dawes Loan was so successfully issued on October 14, 1924, in New York and London. Shortly before that issue, private foreign loans began to flow in. In the main, the economic improvement rested upon a considerable increase in the circulation of German currency.

Owing to the inflation, the gold value of the national

¹ Cf. p. 34 above.

currency in circulation had fallen to 458,700,000 marks, *i.e.* 7.56 per cent. of the pre-war amount, *viz.* 6,070,000,000 marks. However, by the end of December, 1923, the Rentenbank had placed more than 2,300,000,000 marks gold at the disposal of the country's economy.¹

This inrush of Renten-Mark notes was not, as some people have supposed, a species of fresh inflation. What happened was that the necessary replenishment of the currency circulation was effected at such a rapid rate as to produce phenomena similar to those characteristic of the inflation: prices began to rise, and the Renten-Mark suffered depreciation on certain foreign money markets. But, by restricting its loans to the total of a certain date (April 7, 1924), the Reichsbank succeeded in slackening the rate of circulation and reducing prices. Thereupon, imports fell off and exports expanded; this, coupled with an export of gold by the Bank, restored the parity of the mark rate abroad.

In July, 1925, the amount of mark currency in circulation having reached roughly 5 milliard gold marks, no further issues were made. In October, 1924, the new Reichsbank Act had come into force and the Rentenbank notes had been gradually replaced by Reichsbank notes.²

In general the boom which came to an end in the autumn of 1925 was characterized by rising wages, increasing taxation and exceptional business activity. When the first supplies of American money reached Germany in the autumn of 1924, the mortgage mart was in a ruinous condition. People would not risk their money in long-term investments—that is to say, in just those investments which were necessary to restore economic life. Consequently, the big German banks sent millions abroad; much of this money went to France, where, thanks to the position of the franc, they had an oppor-

¹ "Wirtschaft und Statistik," 4 Jahrg. 1924, p. 57.

² 1st quarter 1924, 2.9 Milld. G.M. | 1st quarter 1925, 4.5 Milld. G.M.
2nd " " 3.1 " | 2nd " " 4.8 "
3rd " " 3.7 " | 3rd " " 5.1 "
4th " " 4.3 " | 4th " " 5.2 "

tunity of speculating not to be found in Germany. But the money sent was foreign, not German; it suggested the existence of wealth where, in reality, there was nothing but poverty.¹ The impression of wealth was enhanced by the severe tax legislation which had accompanied the mark stabilization policy since the end of 1923. The public coffers were overfilled; they lent their surplus funds at high interest and reduced their debts by redeeming "dollar" Treasury notes. Moreover, the impression of wealth was enhanced by the fact that, under the Revaluation Act, the middle classes impoverished by the inflation were refunded a small percentage of their fortunes, the refundments bearing interest as from January, 1925, onwards.

The boom reached its height between February and September, 1925, and was followed by a crisis. It had been due solely to the increase caused in the home demand by the ample supplies of credit. This increased demand enabled enterprisers to dispose of their increasing output without any reduction of prices, and relieved them of the necessity of reducing costs by the elimination of superfluous concerns and other burdens; much of the output was produced in an uneconomical manner. A violent shock was requisite to bring about complete rationalization.

As early as the spring of 1925 the inorganically constructed industrial combines were hit by the crisis. As had been the case during the inflation, so in 1924 and 1925 they had borrowed short-term money for the purpose of purchasing industrial sites; no consideration was paid to the altered financial situation, and these combines found themselves in difficulties so soon as their creditors called in the money. In their collapse, several such gigantic undertakings dragged with them into ruin many of their purveyors and customers. Public confidence was undermined, and the over-generous granting of credit came to an end. The crisis strangled

¹ Cf. Ludwig Bernhard's speech at a meeting of the "Société d'Economie Nationale" at Paris, reported in "Réforme Economique," April 25, 1927.

many unsound concerns which had been rashly created, or over-hastily expanded, during the inflation period or during the rapid issue of currency. It at first affected the manufacturers of production goods and then, towards the close of the year, those manufacturing consumption goods. Its effects were seen, not merely in falling dividends and share quotations, but also in an enormous increase in the number of insolvencies and bankruptcies as well as in the rapid spread of unemployment.¹

Save for an interval of depression, things grew better between February and November, 1926. The "Konjunkturforschungs-Institut" characterizes the period from November, 1926, to August, 1927, as a period of improving trade. This improvement culminated in a boom in November, 1927. Then came a gradual ebb which cannot be accounted for by a reference to seasonal influences. This second economic improvement was started by the British coal strike. Its more lasting impulse was received from increased foreign loans. While, by means of publicly issued loans, the years 1924 and 1925 had provided German economy with 1,002,000,000 marks and 1,300,000,000 marks respectively, the year 1926 introduced, by the same channel, M.1,693,000,000, the year 1927, M.1,509,000,000 and the first quarter of 1928, M.338,000,000.² In these different periods the reparation payments which had to be made totalled respectively 281 millions, 1,057 millions, 1,191 millions, 1,584 millions and 413 millions. Thus, beginning with the year 1927, the long-term foreign capital received had become smaller in volume than the reparation deliveries to be paid. But the reports of the big German banks all reveal an ample supply of short-term foreign loans in the year 1927. They served chiefly the purposes of speculation; Bourse movements and tendencies depended upon the discount policy of the American

¹ Cf. the figures given by me in "Die deutsche Wirtschaftskrisis," *Berichte über Landwirtschaft N.F.*, Band IV, p. 45 ff., Berlin, 1926.

² Cf. "Vierteljahrshefte zur Konjunkturforschung," 2 Jahrg. 1927, Heft 4, p. 122.

Federal Reserve Banks.¹ But, in consequence of the interdependence of the markets, the short-term foreign funds on the German money market were not confined to the latter; by a roundabout way they also reached the hands of the industrial undertakers.² Thus, its opportunities of accumulating capital of its own having been so greatly restricted, the manufacturing industry was in large measure financed with short-term foreign loans.

With the help of the funds borrowed from abroad—both on long-term and short-term credit—rationalization was extensively carried out in 1926 and 1927. Plants were very substantially improved. This was the case particularly with those big public companies which publish audited accounts and consequently find it easier to obtain loans. On the other hand, there is still plenty of room for rationalization in the works of the generality of private undertakings both large and small.

Like the first period of prosperity, the second was also marked by a rise in wages and a more ample gratification

WORKMEN'S WEEKLY WAGES *

WEEKLY WAGES FOR FULL-TIME LABOUR

(Weighed average as compared with 1913 = 100.)

	Skilled.	Unskilled.	Cost of Living.
1925 Monthly average . . .	121·6	134·9	139·6
1926 " " " . . .	130·6	145·2	141·1
1927 " " " . . .	137·2	153·5	147·6
1928 1st January . . .	141·2	159·0	150·8
" 1st February . . .	141·5	159·4	150·6
" 1st March . . .	141·8	159·7	150·6
" 1st April . . .	144·2	162·7	150·7
" 1st May . . .	147·9	166·9	150·6

* Reichskreditgesellschaft, "Deutschlands wirtschaftliche Entwicklung im 1. Halbjahre, 1928," Berlin, 1928, p. 19.

¹ Cf. B.B.Z., Nr. 220, 11.v.28. 1. Handelsbeilage.—Wirtschaftsberichte der Direktion der Diskontogesellschaft, Jahrg. 1928, Nos. 1 and 3.—"Wirtschaftskurve d. Frankf. Ztg.," 7 Jahrg. 1928, Heft 1, p. 31.

² "Die Bank," Jahrg. 1927, Heft 8.

of private and public needs. In contrast with the first four years after the war, the working population has shared fully in the economic improvement of the past four years.

Whereas the Ruhr Raid caused enormous unemployment and a reduction of wages to about the standard of a horse's ration, each of the two subsequent periods of prosperity saw a marked decline in the unemployment returns (September, 1927 : 867,000) and a great improvement in real wages. According to the subjoined computations of the International Labour Office in Geneva,¹ real wages in Germany are, it is true, lower than in the other Teutonic countries, but higher than in the Latin countries, where living is cheaper, and very much higher than in Poland.

REAL WAGES OF MALE SKILLED AND UNSKILLED
WORKERS IN FOUR INDUSTRIES IN VARIOUS LARGE
CITIES OF EUROPE AND AMERICA

(Real Wages in London at July 1st, 1924, = 100.)

	1st July, 1924.	1st July, 1925.	1st July, 1926.	1st July, 1927.
Philadelphia . . .	213	180	169	189
Ottawa . . .	172	162	152	166
Copenhagen . . .	—	93	114	112
London . . .	100	99	102	106
Stockholm . . .	85	78	89	98
Amsterdam . . .	89	83	92	92
Berlin . . .	55	63	70	71
Madrid . . .	57	53	57	57
Paris . . .	73	—	—	56
Brussels . . .	59	54	48	50
Prague . . .	56	48	51	49
Rome . . .	46	45	44	46
Vienna . . .	47	42	44	43
Warsaw . . .	—	49	46	39

More important than this limited comparison of four groups is the broadly established fact that, as shown

¹ "International Labour Review," October 1927, p. 560.

by the following figures, the present real wages in Germany and in Great Britain scarcely differ from those of pre-war years.

REAL WAGES IN PERCENTAGE OF THE PRE-WAR
REAL WAGES

Year.	Den- mark.	Nor- way.	Swe- den.	Great Britain.	Germany :		France.	United States.	Aus- tralia.
					Skilled.	Un- skilled.			
Pre-war	100	100	100	100	100	100	100	100	100
1920	133	111	108	102-106	—	—	—	116	101
1921	142	116	110	109-112	—	—	104	104	125
1922	127	107	105	96-98	64	86	—	117	119
1923	118	108	112	93-96	58	72	—	126	117
1924	119	106	121	94-97	76	87	102	125	116
1925	139	119	122	100	92	102	99	125	114
1926	127	117	127	100	91	101	95	126	116
1927	128	—	—	102-105	93	105	—	130	118

The above table shows that the tariff wages in Germany were practically unaffected by the industrial crisis of 1925-26. Of course, the numerous out-of-works had to be content with the essentially smaller unemployment benefit; but, thanks to the trade unions and the political power of Labour, the influence of the economic crisis upon the wages themselves was almost neutralized by the paralyzation of economic law; it is well known that, in the event of a dispute, the wage tariffs in Germany are subject to the decision of a referee; by an order of the Labour Minister, the referee's award may be given general force within the branch of industry concerned, and this is, indeed, to be regarded as the rule.

This, of course, means that an important factor in the economics of production is no longer fixed by the labour market, but is in the hands of a Government authority; in fact, this is the case, not only in the manufacturing industry, but also throughout German economic life. But tariff wages form only one part of the workman's income. Another is made up of the social benefits, which have increased still more rapidly. Such of these as have to be provided by the workers and employers in the shape of contributions and taxes amounted—

in 1913, to M.1,300,000,000 ;
in 1924, to M.1,900,000,000 ;
in 1925, to M.2,500,000,000 ;
in 1926, to M.2,900,000,000 ;
in 1927, to M.3,400,000,000.¹

Together with the growth of national income there has also been an augmentation of the public revenues and expenditure.

Since the industrial crisis of 1925-26, the real income of the Reich from taxes and customs has shown a continued increase, the ratio of which corresponds to the economic situation.

REAL INCOME OF THE REICH FROM TAXES AND
CUSTOMS IN THE YEARS 1924-1928

(In millions of reichsmarks.)

Fiscal year.	1924-25.	1925-26.	1926-27.	1927-28.
Total Revenues from Taxes and Customs	7,322	6,856	7,175	8,490
From Customs alone	357	591	940	1,251
Total Revenues from Income Tax and Corporation Tax .	2,524.4	2,441.5	2,635.3	3,262.3
Turnover Tax	1,918	1,416	876	878

The influence of foreign loans upon the Reich revenue is immediately reflected in the customs returns, which are largely affected by the importation of food-stuffs bought with the proceeds of those loans. Since the autumn of 1925, imported food-stuffs have been subject to protective tariffs. In 1925 they formed 31.6 per cent. of the total imports, in 1926, 34.6 per cent., and in 1927, 31.6 per cent. Again, the boom caused by the foreign loans is also recognizable in the increased revenue from income tax. The case is different in regard to the turnover tax, whose rate was reduced on October 1, 1925, and again on April 1, 1928.

¹ "Statist. Jahrb. f. d. Deutsche Reich, 1927," p. 427. "Wirtschaft und Statistik," 8 Jahrg. 1928, Heft 8.

Besides the revenues of the Reich, those of the Federal States and the communes also require consideration. Statistics providing a comparison between pre-war and post-war conditions are available only for 1913-14 and 1925-6. According to these, the combined financial requirements¹ of public administration in the Reich, the States and the communes amounted in 1913-14 to M.7,252,600,000, *i.e.* M.125.50 per head of the population. Including all obligations under the Dawes Agreement, they totalled in the year 1925-26, M.14,500,000,000, *i.e.* M.237 per head. This represents an aggregate increase of 100 per cent. and a *per capita* increase of 85 per cent. The taxation revenues of the Reich, States and communes rose from M.4,100,000,000 in 1913-14 to M.10,600,000,000 in 1925-26, the latter including the special payments under the London Agreement. The balance of the financial requirements is met by the yield from administration, by loans and by drawing on funds. The railways, which prior to the war provided the different States with very considerable revenues, have ceased to be a source of income since the creation of the German Railway Company. This company, owing to the burden imposed upon it by the London Agreement, yields the Reich no income of any moment.

Professor Popitz,² Under-Secretary of State in the German Treasury, estimates the receipts of public bodies from taxation at M.11,000,000,000 in 1926-27 and at M.12,000,000,000 in 1927-28. The incidence of taxation has changed in the following ratio. Whereas, for example, the biggest incomes in Prussia in 1913 were taxed to the extent of about 13 per cent. by State and commune, the incidence upon the lowest taxable incomes³ is now 10 per cent., the scale rising to 40 per cent. for

¹ "Financial requirements" are the sum total of the funds needed for public administration.—"Wirtschaft u. Statistik," 1928, S. 338 ff.

² "Die Probleme der Finanzpolitik des Reiches"; in "Strukturwandlungen in der deutschen Volkswirtschaft," hersg. v. B. Harms., Bd. 2, Berlin, 1928, p. 373.

³ "Vierteljahrshefte für Konjunkturforschung," 1926, Heft 1, p. 39.

incomes exceeding M.80,000. Taking as the pre-war national income Helfferich's figure of M.40,000,000,000 (at present value of money, M.56,000,000,000), Germany's average incidence of taxation at that time was 10 per cent. The "Institut für Konjunkturforschung" assumes the national income for 1925 to have been probably 50 to 55 milliard marks; according to the former figure, the burden of taxation for 1925-26 would work out at 21.2 per cent., and for the latter at 19.4 per cent. of the national income.

The increase of M.6,500,000,000 in the incidence of taxation as between 1913-14 and 1925-26 was met in roughly equal proportion by levying fresh taxes and imposts and by raising the tariffs of already existing taxes.

In 1925-26 the new taxes yielded :

Turnover Tax, about	M.1.40 milliard marks.
House-rent Tax	1.25 " "
Special taxes raised in fulfilment of the London Agreement	0.46 " "
	<hr/>
Total	3.11 " "

The higher rates and extended application of the already existing taxes yielded in 1925-26 an increase made up as follows :

	Amount of increase.	Percentage increase as compared with 1913-14.
From income tax	1,070 million marks	77%
„ tobacco tax	560 „ „	1113%
„ realty tax	440 „ „	100%
„ industries tax	400 „ „	223%
„ transport tax	280 „ „	709%
„ property tax	200 „ „	250%
	<hr/>	
Total	2,950	

Prior to the war the receipts from the railways covered a large proportion of the expenditure of the various States—in Prussia, indeed, considerably more than one-half. This source of revenue has now been lost.

The reorganization of German financial administration and the augmented fiscal authority of the Reich have sensibly curtailed the revenues obtained from income tax by the States and communes. In this tax, consideration was paid to the financial status of the taxpayer. To meet the deficiency caused by the reorganization, the States are obliged to have recourse to valuation taxes imposed upon definite objects regardless of the capacity of the taxpayer. The most prominent case is that of the house-rent tax introduced subsequent to the war; other previously existing taxes, *e.g.* the industrial tax and the realty tax, had to be considerably increased. In this way the taxation burden has been substantially augmented.

The subjoined table shows the use to which the public revenues were put in 1913-14 and in 1925-26.

PRINCIPAL ITEMS OF PUBLIC EXPENDITURE

1913-14.			1925-26.		
	Millions of Marks.	Per-centage.		Millions of Marks.	Per-centage.
Defensive forces . . .	1,821.8	25.1	Burdens due to the war (internal and external) * . . .	2,388.9	21.4
Traffic	848.0	11.7	Welfare and hygiene	1,924.2	13.3
Elementary and continuation schools . . .	780.2	10.7	Elementary and continuation schools . . .	1,266.2	8.8
Welfare and hygiene . . .	661.6	9.2	Traffic	1,117.2	7.7
Debt service	500.1	6.9	Housing	1,084.7	7.5
General administration	483.6	6.7	General administration	789.4	5.4
Social services	418.3	5.8	Police	723.0	5.0
Secondary education, etc.	370.1	5.1	Fiscal administration	668.8	4.6
Justice	340.5	4.7	Defensive forces . . .	663.3	4.4
Police	221.9	3.1	Justice	552.3	3.8
Total financial requirements . . .	7,252.1		Total financial requirements . . .	14,477.9	

* *Internal burdens* include pensions to widows, orphans and war invalids, pensions to old soldiers, expenditure caused by territorial cessions, the military occupation and disarmament.

External burdens are those arising out of the London Agreement of June 1924, and out of the Treaty of Versailles, the latter including the obligations service under the Dawes Agreement, *viz.* the German Railway Bonds and the Industrial Bonds.

The "revenue-covered" requirements (*zuschussbedarf*)¹ totalled 5·4 milliard marks before the war; in 1925-26, they were 11·9 milliards, the difference being thus 6·3 milliards. Of this difference, 2·7 milliard marks, or 41·5 per cent., is required for war burdens (internal and external), and 2·3 milliards, or 35·4 per cent., welfare services, *e.g.* housing and unemployment benefits. In the total "revenue-covered" requirements of 11·9 milliard marks, the war burdens share to the extent of 23·11 per cent., while the total welfare services form 29·26 per cent.

In the first year following the stabilization of the currency the German budget showed an unexpected surplus of 496,000,000 marks. A lavish financial policy was pursued by the Reich, the federal States and the communes, which ignored the possibility of these apparently inexhaustible revenues coming to an end.² The result was a deficit in the budget amounting to 96,300,000 marks for 1925-26, 200,600,000 in 1926-27 and 40,000,000 marks in 1927-28. These deficits were met out of the surplus for 1924-25, so that there was, at the end of the fiscal year 1927, an apparent surplus of 160,000,000 marks. People forget, however, that, in 1926 and 1927, the Reichstag voted expenditure totalling 1·4 milliards to be met by means of loans. But, owing to the tightness of money, the Government has been able to obtain only 452,000,000 marks in this way; so that 914,000,000 marks remains to be provided for. Of this latter figure, only one-half, *i.e.* 457,000,000 marks, has actually been spent; accordingly, if allowance be made for the 160,000,000 marks surplus referred to above, there remains a balance of 300,000,000 marks requiring immediate settlement. To what extent funds must be found for the unexpected half, *i.e.* the other 457 millions,

¹ The "zuschussbedarf" is the sum estimated as obtainable from the profits on property and from taxation and customs duty. By "property" is to be understood real estate, capital funds, enterprises, plants, etc.

² Cf., Bonn "Befreiungs- oder Beleihungspolitik?", Berlin, 1928, p. 40.

depends upon the extent to which the estimates voted are carried out.

In the year 1913, one-quarter of the budget consisted of the army estimates of 1.8 milliard marks. Now it is true that the Treaty of Versailles has fixed the strength of the German army at about one-seventh of the pre-war figure, but this has not correspondingly reduced the military expenditure. A regular army is more costly than a conscript army. Moreover, to ascertain the actual military expenditure it is necessary to add the costs of providing for the former members of the disbanded army—costs which form the chief factor in the “internal war burden.” Seventy per cent. of the internal war burden of 1,877,900,000 marks is needed for military pensions (1,330 millions). Adding to this amount the 663 millions required for the defensive forces, we obtain a military expenditure of 1,993 millions in 1925–26 as against 1,822 millions in 1913–14. But, in purchasing power, the 1,993 millions of 1925–26 is equivalent to 1,266 millions in 1913; hence the actual military expenditure is almost double the figure given in the budget, though, after all, one-third less than of 1913–14. But this minus of 700 million marks is more than counterbalanced by the “external” war burdens. These, in 1925–26, amounted to 1,217 million marks, being an excess of 500 million marks over 1913–14.

The second factor in the rise of the financial requirements is the greatly increased cost of public administration. In 1913–14 the costs of general and financial administration aggregated 486 millions, but in 1925–26 they reached 1,457 millions. The Reich had no financial administration of its own prior to the war. Its tasks in the matter of general administration were performed by the different States. Moreover, only Würtemberg and Bavaria had special separate financial administrations. The financial administration of the Reich was centralized chiefly in order to ensure a uniform and certain collection of the war burdens imposed by the Versailles dictate. Its structure is not altogether rational. For political reasons,

local administration had to be retained; and, for similar reasons, more officials had to be employed than is absolutely necessary. The unavoidable levying, at a great expense of labour, of numerous small taxes to meet the heavy financial requirements, coupled with the irksome frontier line drawn by the Versailles dictate, necessitates a large staff of tax and customs offices. However, the German Government is reorganizing its financial administration on a cheaper and more rational basis; it has already ordered the suppression of forty financial posts in South Germany.

In administration generally, matters are much the same. The increased costs reflect, both as regards finance and working, the not very happy structure of the Reich—a structure, however, which is traditional and consequently difficult to alter. A reform has been envisaged for a long time; when it materializes, it will of necessity effect a simplification of the services and a reduction in the number of officials.

The third factor in the increase of the financial estimates since the war is the expenditure in the welfare service. The comparative totals are as follows:

	1913-14.	1925-26.
Expenditure by the Reich	M. 63,700,000	M. 479,400,000
„ by the States	97,900,000	792,400,000
„ by the Communes	1,033,700,000	3,188,100,000
<hr/>		
Total less allowance for overlapping	M. 1,121,000,000	M. 1,987,600,000

This increase in expenditure for welfare and benevolent purposes is mainly due to the power conferred upon the proletariat as a result of the democratization of all public bodies from the Reichstag to the village commune. Fundamentally, this also explains the increasing deficits in the German budgets of the last few years.

No substantial reduction in the financial requirements of the country is to be anticipated within the visible future. Although, in the course of nature, there will be a reduction in the expenditure for pensions, and

probably a corresponding reduction of the "internal" war burdens, an augmentation will occur in the "external" (Dawes) war burdens. These latter totalled in the transition year 1925-26 only 1,217 million marks; but in the financial year 1929-30 they will amount to 2.5 milliards. Accordingly, for the visible future, more than one-fifth of the financial requirements of the country, *i.e.* of the Reich, the States and the communes, will be made up by the demands for tribute. True, a reduction in welfare expenditure is to be reckoned with as a consequence of the establishment of a Reichs institute for unemployment insurance. But this does not mean an equivalent alleviation of industry, since the social burdens will be correspondingly augmented. Hence, apart from the reparation creditors—*i.e.* the Allied and Associated Powers—it was primarily the wage-earners and salaried workers who benefited by the improvement in trade and the resultant augmentation of public revenues and expenditure.

Accordingly, the loans obtained abroad have gone preponderantly to swell wages and salaries, and have consequently increased the purchasing power of the masses. A trade improvement ushered in by a demand for production goods soon manifests itself in a quickened demand for consumption goods. Statistics (*cf.* table, p. 171) reveal the fact that, in some cases, the consumption of goods in 1926 approximated to pre-war figures and, here and there, even exceeded them. In 1927 the increase continued: more meat, "foreign" fruits,¹ sugar and tobacco were consumed than before the war.

However, allowance must be made for the higher proportion of middle-aged and old people and the lower proportion of young people in the existing population. This, coupled with the plethora on the home markets and the consequent cheapness of pork and beef, largely explains the increased consumption of meat. As regards quantity, the greater consumption of "foreign" fruits is counterbalanced by a reduced importation of other

¹ Fruits such as oranges and bananas, which do not grow in Germany.

CONSUMPTION PER HEAD OF POPULATION

(Kilograms or litres.)

	1912-13, 1913 or 1913-14.	1922-23 or 1923.	1924-25 or 1925.	1925-26 or 1926.	1926-27 or 1927.
Rye	153.1	89.7	87.2	114.5	97.2 *
Wheat and Spelt	95.8	46.5	67.9	73.7	78.8 *
Barley	108.0	29.3	45.4	57.5	70.5 *
Oats	128.3	57.1	85.1	85.9	95.3 *
Potatoes	700.2	559.6	495.1	581.9	381.9 *
Meat †	49.5	39.5	44.9	45.4	49.9
Sugar	19.0	13.3	20.2	20.5	21.7 *
Coffee	2.4	0.6	1.4	1.7	2.0 ‡
Foreign Fruits §	4.6	0.7	6.1	6.2	6.9 ‡
Other Foreign-grown Fruits	6.6	—	5.3	—	5.1 ‡
Beer	102.1	44.9	75.4	76.3	81.0
Alcohol	5.4	1.8	2.8	3.0	3.7
Of which :					
Potable Spirits	2.8	0.6	1.0	1.1	1.3
Industrial Alcohol	2.6	1.2	1.8	1.9	2.4
Raw Tobacco	1.5	1.4	1.8	1.9 *	2.0 *
Cotton	7.2	3.0	5.9	4.7	7.1 *
Jute	2.3	1.4	2.1	1.4	—
Petroleum (foreign)	15.2	3.0	7.4	7.3	—
Coal 	2666	1731	2216	1987 *	2428 *
Iron Ore	690	130	262	213	—
Pig Iron	277	80	160	143	—
Zinc	3.4	1.0	2.4	2.3	—
Lead	3.4	1.3	3.4	2.7	—

* Figures supplied by the "Stat. Reichsamt." For crop estimates see p. 136. The post-war returns are too low.

† Figures supplied by the "Stat. Reichsamt" on the basis of its new computations. As no such correction was made for 1923, the figures for 1924 have been inserted.

‡ Calculated on the statistics of foreign trade.

§ Fruits such as oranges and bananas, which do not grow in Germany.

|| "Coal" here includes lignite, coke and briquettes, the figures being converted to correspond to pit-coal.

foreign-grown fruits such as apples; while the greater consumption of tobacco is compensated by a reduced consumption of beer and spirits. But there has undoubtedly been an improvement in the standard of living. That so much more butter is imported than was the case before the war (cf. p. 141) is doubtless due, not merely to a certain backwardness in the German dairy industry, but also to the fact that the working classes no longer use margarine on their bread but only for cooking. Women everywhere now use more artificial silk and proportionally less cotton.

Generally it may be stated that, in harmony with the higher wages, the standard of living has regained the pre-war level. The housing conditions, however, have shockingly deteriorated. The capital at disposal is too restricted and too dear to liberate building from State control and to leave it to private enterprise without the heavy subsidies provided out of taxation. Noticeable is the decline in the consumption of iron and other metals. This is of great significance as concerns the economic development of the country. The equipment of industry with iron was doubtless complete before the war. Speaking generally, it needed merely to be maintained and adapted.

A further result of the improvement in trade was the greater liquidity of money. Savings deposits, bank deposits, the published reserves of companies, etc., increased. Moreover, early in 1927, another period of speculation set in on the Bourse and continued until, from the middle of May onwards, the action of the President of the Reichsbank curtailed the advances on stocks and shares. The policy of the Reichsbank aims successfully at stopping any excessive granting of credit, and particularly at preventing anything of an inflational character. Any deterioration of German currency is rendered impossible by the severe restriction of the demands which the Treasury may make upon the Reichsbank.

It is mainly owing to this policy that the price movement in Germany has been kept within reasonable bounds.

LOANS AND PRICE-CURVES

	III. 1925.	IV. 1925.	I. 1926.	II. 1926.	III. 1926.	IV. 1926.	I. 1927.	II. 1927.	III. 1927.	IV. 1927.	I. 1928.
Foreign Loans (million marks)	368.6	656.3	345.7	454.3	351.4	421.1	87.6	73.3	657.4	565.8	338.0
Wholesale * index ("Stat. Reichsamt," new method)	142.9	141.5	134.4	132.3	134.0	136.8	135.5	136.6	138.4	139.8	138.4
Farming Produce	137.2	133.5	121.0	122.7	131.5	142.1	138.5	138.1	137.7	136.9	131.2
Manuf. Production	135.9	139.0	136.2	133.8	130.3	129.8	129.1	129.4	130.3	132.2	135.2
Goods	173.6	174.8	172.8	166.2	156.7	153.3	151.3	155.8	162.6	171.1	172.9
Manuf. Consumption											
Goods											

* Monthly average. Sources: "Vierteljahrshefte zur Konjunkturforschung," Jahrg. 2, 1927, Heft 4, p. 120. "Statistisches Jahrbuch für das Deutsche Reich," 1927.

True, the index of consumption goods shows, in several cases, a considerable increase; for instance, in the second half-year of 1925 and at the turn of the year 1927-28. In 1925 this was due to the fact that, after the partial recovery from the severe impoverishment of the inflation, many people sought to replenish their personal and household equipment—a process whose course is apparently not yet complete. The rise in the prices of consumption goods at the end of 1927 and early in 1928 must be attributed to the increase in wages and salaries at that time.

The fact that the index of industrial production goods was low down to the last quarter of 1927, in comparison with the general wholesale index, must be regarded, first, as a result of Government pressure on heavy industry, and, secondly and more emphatically, as an expression of the rationalizers' decreased demand for plant. But the rise in prices, more particularly of coal and iron, caused by State policy in the matter of wages since the beginning of 1928, reacts in the direction of increased prices for industrial production goods.

This rise in the prices of plant coincides in point of time with a diminution ascertained by the "Institut für Konjunkturforschung" in the capacity of the home market.¹ Parallel with this, reports came to hand concerning improved international trade and an expansion of export possibilities.² Sales and remunerative figures abroad, however, were checked by the augmented costs of industrial production goods.³

Thus the German economy in the early summer of 1928 was characterized by rising prices and a falling turnover in the manufacturing industries generally and by a continued rise in the wage-curve. These symptoms resemble those of the great inflation, but they are due to different

¹ Wochenbericht, Nr. 14 vom 4.vii. 28.

² Vierteljahrshefte zur Konjunkturforschung, Jahrg. 3, 1928, Heft 1, Teil B, p. 41 ff. "Deutschlands wirtschaftliche Entwicklung im ersten Halbjahr 1928, überreicht von der Reichskreditgesellschaft," Berlin, 1928, p. 20.

³ Verein Deutscher Maschinenbauanstalten, Junibericht, 1928.

causes. They are not the result of any unwholesome augmentation of the currency. On the contrary, the situation was produced by the demand of the manufacturers for modern plant to be used in rationalizing their works. In the great key industries this rationalization is now practically complete. Further developments are, on the one hand, contingent upon the extent to which foreign loans have furthered the accumulation of German capital, and, on the other, upon the scope of agricultural purchases on the home market.

(b) *The Accumulation of Capital*

Naturally no adequate statistics are available concerning the accumulation of capital in Germany. The table printed below only indicates certain tendencies; it fails to show what has been accumulated in the various undertakings by means of writing-off and by the formation of secret reserves. Consequently one of the most important factors in the accumulation of capital cannot be reduced to figures. The inherent energy of this hidden capital will become recognizable only in its effects upon general economic developments.

DATA OF CAPITAL INCREMENT IN GERMANY *

(Million marks.)

Period.	Savings Deposits.	Increase in Deposits.	Issues.		Foreign Loans.	Building Projects registered by Industrial Undertakings.†
			Shares.	Interest-bearing.		
4th quarter of 1925	1629.1	236.0	167.8	188	656.3	—
1st " " 1926	2044.6	411.5	103.1	435	345.7	2184
2nd " " "	2362.3	318.1	120.4	957	453.2	2554
3rd " " "	2712.6	349.0	290.7	827	351.4	2565
4th " " "	3090.8	384.6	338.0	1053	424.1	2583
1st " " 1927	3718.8	619.2	317.5	1356	87.6	2343
2nd " " "	4022.7	326.6	395.0	774	73.3	2895
3rd " " "	4340.3	316.9	237.5	392	657.4	2955
4th " " "	4665.4	325.4	290.1	371	565.8	2893
1st " " 1928	5486.9	721.4	179.8	974	338.0	1998

* "Vierteljahrshefte zur Konjunkturforschung," Jahrg. 8, 1928, Heft 1 B.

† "Wirtschaft und Statistik," Jahrg. 8, 1928, Heft 3.

During the period of trade improvement and rising wages, savings deposits also rose. The following figures show the average monthly increase for the years 1925-28 :

1925	.	.	.	90,500,000 marks. ¹
1926	.	.	.	116,400,000 „
1927	.	.	.	131,200,000 „
1928 (1st quarter)	.	.	.	240,400,000 „

The trade influence becomes still more noticeable if attention be paid to the periods in which a milliard marks is accumulated. The first milliard was reached by April, 1925, *i.e.* in the seventeen months immediately following the stabilization ; the next milliard by March, 1926, *i.e.* in eleven months, the third milliard by December, 1926, *i.e.* in only nine months ; the fourth milliard by June, 1927, *i.e.* in only six months ; the same length of time sufficing also for the fifth milliard (January, 1928).

Nevertheless, the savings deposits at the end of March, 1928, totalled only 5.5 milliard marks, or no more than 28 per cent. of the figures reached in 1913. The administrations of savings offices invested them for long periods in far smaller proportion than was customary before the war. This is requisite because the savings are primarily intended to meet emergencies ; they are reserves made for definite purposes and definite periods ; and, owing to the present circumstances, they are deposited and withdrawn much more frequently than in pre-war years. Prior to the war, savings deposits averaged in length three years, whereas, in 1927, the average was only four months. Detrimental also as compared with pre-war years is the fact that the alteration in the methods of saving was unfavourable to the Reich, State and communal loans.

¹ Calculated on data given in the "Deutsche Sparkassenzeitung," 30.vi.1928 (No. 74, p. 4). The rapid increase in the first quarter of 1928 is due to the crediting of interest, the receipt of revaluation payments, New Year's bonuses, etc.

Equally noticeable is the increase in the issue of shares. This increase went largely parallel with the improvement in trade about the middle of 1926; but it is remarkable that a decline set in again in the autumn of 1927, that is to say, before the peak of the trade curve had been reached. Even the heavy influx of foreign capital in the form of loans in the second half of 1927 failed to prevent this retrograde movement.

As was the case prior to the war, the issue of interest-bearing securities rose during the first phases of improving trade and ebbed again as the curve reached its maximum.

The connection between the issue figures and the influx of foreign loans became clearly perceptible in the autumn of 1926 and the spring of 1927. In 1926 the industrial depression and the foreign loans had combined to give people the impression that national capital was being rapidly accumulated. Whereas, in August, 1926, 10 per cent. had to be paid for first mortgages, the rates had fallen to 8 per cent. by the end of the year and to $7\frac{1}{2}$ per cent. by the end of the first quarter of 1927. This fluidity of capital induced the German Government in December, 1926, to rescind, for the time being, the exemption of foreign loans from the tax on the yield from capital. This measure practically stopped the further introduction of long-term foreign capital, and a rapid drop occurred in the first half of 1927. Since the easiness of the capital market nevertheless persisted, the German Ministry of Finance resolved to take advantage of the situation in order to carry out its long-cherished design of floating a home loan; consequently, in February, 1927, it issued for subscription at 92 per cent. a 5 per cent. German loan amounting to 500 million marks. But even this loan soon caused difficulties by depressing the market for interest-bearing securities. With the assistance of foreign funds, active speculation in shares succeeded, for a time, in driving up rates. But when the long-term foreign loans ceased to flow in as rapidly as they had done in 1926, and when, at the instigation of the Reichsbank, the banks curtailed the

supplies for Bourse operations in May, 1927, and when the improving industrial situation withheld more and more funds from the market, the lack of really German capital became increasingly evident. The entire securities market came to a standstill, and the rates for mortgages including costs rose once more to 10·4 per cent. at the end of 1927.

Despite all buttressing, the rates of the 5 per cent. German loan continued to sink, and it had to be converted to 6 per cent. in August, 1927. After this failure the Government came to the conclusion that further foreign capital was indispensable. Consequently, from June, 1927, onwards this capital was again exempted from the tax on yield from capital and the Advisory Office for Foreign Loans adopted a more liberal policy in the exercise of its supervisory powers. As a result, foreign funds flowed in again in augmented measure. But, in spite of this and of the fact that from the beginning of 1928 onwards an industrial decline made itself felt, the rates for first mortgages continued to rise, the figure at the end of May, 1928, being 10·5 per cent.

This striking stringency of the money market was in distinct contrast to the falling-off in trade, and became observable from the very moment that the reparation payments began to exceed the influx of long-term loans. One can scarcely resist the deduction that there is here a causal connection.

But, be that as it may, one thing is very obvious, namely, that the foreign loans have failed to cure Germany's financial poverty. Capital is still lacking, and foreign loans and inland accumulation together are still quite unable to satisfy the pressing demands for money. Evidently what was formerly the most important means of accumulating capital, namely, the retention of profits within the undertakings themselves—has not been stimulated in the measure that had been expected and hoped for.

Although cheaper than the rates in Germany, loans raised abroad were dear. The net interest rates for

German State, municipal and industrial loans in America averaged about 7.5 per cent. in 1925, 6.5 per cent. in the first quarter of 1927, and 6.85 per cent. in June, 1928. The average interest on the net proceeds of the loans raised from 1924 to 1926 is estimated by R. Kuczynski at 9 per cent.¹

Now the returns from one's own capital can, in general, be increased by the employment of borrowed capital only if the latter costs less than the profits on the former.² The "*Wirtschaftskurve*"³ has made an attempt to calculate the remunerativeness of the non-borrowed capital (share capital + reserves) of 85 German joint-stock companies aggregating 4.6 milliard marks. The average remunerativeness for the years 1924-27 was 7.6 per cent. Far behind this lagged the remunerativeness of capital in the coal and iron trades (3.8 per cent.), the machine factories (6.2 per cent.), the chemical industry (4.3 per cent.) and the electrical trade (6.7 per cent.); while above it lay lignite (8 per cent.), artificial silk (9.9 per cent.) and the breweries (11.6 per cent.).⁴ True, it is not known to what extent secret reserves have been accumulated. Reliable information, however, tends to show that accumulation by this method is still inadequate. It is also certain that depreciation has often been insufficiently written off, in order to permit the distribution of higher dividends.

¹ R. Kuczynski, "*Deutsche Anleihen im Auslande*," Berlin-Schlachtensee, 1928, p. 57.

² Compare pp. 206, 207 and Prion, "*Das deutsche Kapitalproblem und die Betriebsführung*" in "*Ztschr. d. Verb. dtsh. Dipl.-Kaufleute*," 8 Jahrgang, 1928.

³ 7 Jahrg., Heft 2, p. 180.

⁴ According to the returns of the "*Statistisches Reichsamt*," 4,773 joint-stock companies, with an aggregate capital of 19.3 milliard marks, paid 8.4 per cent. dividends in 1913-14, whereas 9,372 companies with an aggregate capital of 17.5 milliard marks (=12.5 milliards pre-war money) distributed dividends averaging 3.8 per cent. The dividends of the German joint-stock companies averaged in 1925-26, 4.4 per cent.; 1926-27, 5.6 per cent. ("*Wirtschaft und Statistik*," 6 Jahrg., pp. 366 and 937; 7 Jahrg., p. 951; 8 Jahrg., p. 225). These figures thus lagged far behind the rates for first mortgages, which averaged 10.9 per cent. in 1926 and 8.9 per cent. in 1927.

Everything considered, it may be assumed that the foreign loans obtained have done but little to augment the remunerativeness of the capital in German enterprises.

These enterprises are obliged to shoulder the burden of dear money, enhanced wages and very heavy taxes and social contributions, while they find no equivalent in the shape of increased prices. As the official regulation of wages prevents an equilibrium from being established by any reduction of wages, the increased interest rates and the public burdens are bound to diminish the profits from which capital might be formed. It must not be forgotten that, even before the war, Germany, with her restricted area and lack of raw material, was forced to make an intensive use of capital. Only so was it possible for her industry to make profits wherewith to purchase food-stuffs and raw material.

In passing, let us consider further the rules governing the employment of dear money in undertakings already making an intensive use of capital. In general, the only concerns which can usefully do so are those enabled by the dear credit to reduce their other expenses either by exploiting inventions or by rationalizing their works. Another case is that of a plant which, valuable in itself, needs some slight repairs to set it going. Indeed, wherever a "final need" is involved, it pays to employ dear "final credit" if cheap money is not to be had. It would be utterly mistaken to deduce from these exceptional cases, in which "final" points are decisive, any conclusions as to the average remunerativeness of the German undertakings.¹

The unsatisfactory and inadequate accumulation of capital within the concerns manifests itself above all when trade begins to slacken, inasmuch as the employers are unable to keep on their workpeople and to manufacture for stock. On the contrary, an effort is made to keep stocks as low as possible. This is one of the causes

¹ R. C. Long accordingly writes in his "Mythology of Reparations," London, 1928, p. 138: "How high is the earning power of money is shown by the fact that industrial companies borrow from abroad at 7 per cent. with the design of making profits at a much higher rate."

contributing to produce the greater fluctuations on the employment market as compared with pre-war years and to swell to such dimensions the "army of the industrial reserves."

The "Reichs-Kreditgesellschaft" has made a very problematic attempt to estimate the accumulation of German-owned capital, the amount of imported capital and the manner in which each is employed. It assumes that production in 1927 exceeded direct consumption by 12 milliard marks (previous year 6.3 milliards) and that the importation of capital for purposes other than the backing of currency amounted to 4.4 milliards, *i.e.* about one-half of the accumulated German-owned capital. Accordingly, it concludes that, account being taken of the decreased purchasing power of money, altogether about the same sum was at disposal for home investments as in the year 1913, the sum at that time being 8.5 milliards, or the present equivalent of 11.9 milliards. Out of accumulated German capital the home money market is presumed to have met demands in the year 1927 to the extent of 3.8 milliards, this figure being 800 millions less than in 1926. But the major portion is said to be attributable to capital accumulated within the German concerns themselves. The "Kredit-Gesellschaft" itself stresses that these are all only rough estimates based on our unfortunately very imperfect knowledge of the balance of payments and of the general ratio of output to consumption. These figures of the Federal Credit Bank have been used by Mr. R. C. Long to support his assertion that, out of her own savings and without making demands upon foreign credit, Germany has made her reparation payments and has also accumulated a surplus of capital for investment purposes.

Mr. Long makes no endeavour to explain the contradiction existing between his assertions and the above facts—facts which prove clearly a deficiency of capital. Mr. Long also investigates the ratio between supply and demand on the money market. He forgets, first, that, during the years of war and inflation, little could be done to improve the mechanism of production, that, secondly,

the pressure of the Dawes payments now necessitated a rapid repair of this neglect; thirdly, that it is only possible for Germany's severely burdened industry to compete with the less burdened foreign industries if the latest achievements of manufacturing technology are made use of, and that this, by necessitating a more frequent revision of the plants, causes in its turn a greater demand for capital.

Mr. Long's views concerning Germany's wealth of capital are confuted by the Federal Credit Bank itself.¹ It points out that even an increment of capital equal at least to the pre-war amount would not suffice to repair the neglect of war-time and post-war years and to meet the increased demands for plant due to the increase of population. All the less is it possible, by the accumulation of German-owned capital, to provide for the enforced expansion of output requisite to meet the reparation payments. Just as little is the German railway company able to obtain in Germany sufficient capital to extend its installations and to keep pace with technical progress. Moreover, it is only with the assistance of public moneys that the growing population can be housed at all, and even so in only a very imperfect manner. But it is in agriculture that the want of capital does the greatest mischief.

3. THE AGRICULTURAL CRISIS AND ITS CAUSES

Any description of the present economic life of Germany would be extremely incomplete if it confined itself to the trade movements in the towns. Although it was precisely these which, by increasing the purchasing power of the "marginal buyer," put an end to the great depression in agricultural prices universally prevailing, and although the increased demand of the towns naturally benefited German agriculture, farming outside the immediate environs of the urban and industrial districts is almost everywhere in a very bad way, while in large rural districts absolute distress exists.

¹ "Deutschlands wirtschaftliche Entwicklung im 1. Halbjahr," 1928, p. 1.

The diminution of mineral resources as a result of the annexations, coupled with the loss of all colonies, made Germany's productive soil her most valuable source of real wealth. Immediately after the war, therefore, the problem of increasing the agricultural output was attacked with great ardour and energy. Scientific experts and practical farmers agree in the conviction that it would, in the course of time, be technically possible to render Germany capable of supplying her own needs in regard to bread, meat and dairy produce. Many turned to the task with great courage, their motto being: "Let us, so far as our produce is concerned, make the country independent of foreign food supplies." This optimism has given place to a profound pessimism; for it has turned out that, in only too many cases, the intensification was unremunerative. Indeed, instead of the expected production of new capital out of the soil, there has taken place a very extensive and severe impoverishment of the rural population.

The Committee of Inquiry appointed by the German Government in 1926 examined thousands of farmers' account books and selected the most reliable; the leased farms and all extreme cases were left aside. The results of investigation were as follows:¹ In 38 per cent. of 2,568 farms of all sizes in the year 1924-25 the expenses exceeded the receipts; deducting the real property taxes burdening the farms, it was found that 51 per cent. produced no net profits. In 1924-25 the crops were very poor. Next year's harvest was exceptionally good. Nevertheless, of 2,773 farms, 27 per cent. made no gross profits and 41 per cent. no net profits. Interest has not been reckoned in any of these cases—not even where the farm is in debt. During the two years which have since passed, 1926-27, 1927-28, there has certainly been no improvement, one reason being that, like the year 1924-25, the crops were, on the whole, unsatisfactory.

The freedom from debt brought about by the inflation

¹ "Landwirtschaftliche Buchführungsergebnisse. Untersuchungen zur Lage der Landwirtschaft," I. Teil (Materialien.—Verhandlungen und Berichte des Unterausschusses f. Landwirtschaft, Bd. 2), Berlin, 1927.

soon gave place to fresh burdens. According to the investigations of the "Institut für Konjunkturforschung," the indebtedness of German agriculture on December 31, 1927, amounted to 10 milliard marks, exclusive of the Rentenbank Land Mortgage Debt, but including 3 milliards for revaluation. To some slight extent there was a balance on the other side in the form of deposits with the agricultural co-operatives. Only a small proportion of these, however, were assets belonging to the farmers themselves. Most of them were the savings of farm labourers, servants and artisans. The savings deposited with Raiffeisengenossenschaften (co-operatives) totalled :

in 1913	.	.	.	673,000,000 marks ;
in 1927	.	.	.	250,000,000 „

Those with the Reichsverband deutscher landwirtschaftlicher Genossenschaften were :

in 1913	.	.	.	1,371,000,000 marks ;
in 1927	.	.	.	523,000,000 „

The co-operatives themselves have heavy liabilities with the Preussischen Zentralgenossenschaftskasse. Consequently there can scarcely be any question of capital accumulation in agriculture.

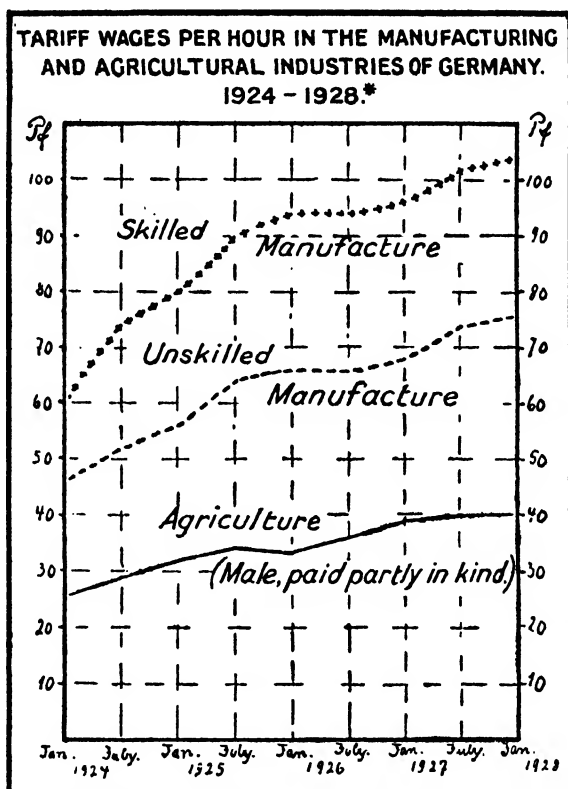
Even though the actual indebtedness is now rather less than in 1913 (13 milliard marks), the average burden of interest per hectare of agricultural land (irrespective of Rentenb. Land Mort. Debt) is 25.9 marks as against 21 marks in the pre-war years. The whole stretch of country from East Prussia along the Baltic and far down south, as well as westwards across Brandenburg and Mecklenburg into East Holstein, is suffering from a great crisis. It is particularly severe in the case of capitalistic undertakings, *i.e.* those which have to calculate closely because they are completely dependent upon their sales and employ chiefly outside labour instead of members of their own family. But the peasants farming their own

land in the west of Germany have also been hard hit. The indebtedness of 42 per cent. of all book-keeping farms in East Prussia exceeds the full amount of the assessments recently made on the basis of the so-called *einheitswert*; in East Germany as a whole the percentage is 22.5 and in West Germany 4.9. The percentage is sensibly higher among the big estates. So far as the data extend to farms with more than 100 hectares of agricultural area, they show that, save for the smaller estates in 1925-26, these farms, on the average, were worked at a loss, so that the very considerable interest charges due could not be paid without contracting fresh debts, unless the owner of the estates had other sources of income, such as forest property.

Things also look very black in other parts of Germany, especially in the poor mountainous and hilly districts which form such a large proportion of Western Germany. The sharp contrast between the situation in the manufacturing industries and in agriculture is particularly manifest in the wage movements. Agriculture, in its own interests, would be glad to raise the wages of its workpeople in order to stem the flow of labour into the towns; but it is not in a position to do so.

The reasons for the exceptionally bad condition of German agriculture are not to be found in the question of prices, or if so only in a secondary way. True, when, under the influence of capital received from America, the agrico-industrial price ratio (*i.e.* the ratio of prices as between manufactured goods and farm produce) became beneficial to the latter on the international market at the close of 1924, the prices of farming produce in Germany followed a course of their own, this being due to the pressure exercised upon them by the enormous short-term indebtedness which many farmers had meanwhile incurred. Subsequently, and quite irrespective of the protective tariff introduced in 1925, suitable measures in regard to credit succeeded, on the whole, in coping with the situation, so that since 1926 the German farmer has been no worse off in respect to prices than farmers in other non-tropical countries. On the contrary, German

agriculture in recent years has enjoyed a particularly favourable ratio of prices, inasmuch as nitrogen and potash fertilizers have become sensibly cheaper than before the war. Moreover, agricultural implements



* The above diagram, constructed by Prof. C. v. Dietze from data published by the Statistisches Reichsamt ("Wirtschaft u. Statistik") and the Deutscher Landarbeiterverband ("Landarbeiterarchiv") shows the weighed average of tariff wages per hour in pfennigs.

and machinery are supplied cheaper than formerly, and cheaper than now in most other countries, especially the United States.

The main causes of the calamitous situation in agriculture are the high rates of interest, the heavy taxation

and the social contributions. Thus German agriculture is hampered in the same way as German industry generally; its burdens are the same as those which impede the export of German manufactures. According to the investigations of the Committee of Inquiry, the fiscal burdens may be stated thus :

FISCAL BURDENS OF AGRICULTURE IN 133 EAST
GERMAN AND 103 WEST GERMAN FARMS

(Marks per hectare of agricultural area.)*

	Agricultural Year.	Real Property Taxes.	Personal Taxes.†	Combined.
East Germany . {	1912-14 1924-26	7'1 25'3	6'0 12'0	13'1 37'3
West Germany . {	1912-14 1924-26	8'6 37'4	8'0 18'0	16'6 55'4

* Enquete-Ausschuss, Landwirtschaftliche Buchführungsergebnisse, 1927.
† Estimated.

The following calculations are available for a few farms in Westphalia.

INCIDENCE OF TAXATION, SOCIAL CONTRIBUTION
AND INSURANCES IN NINE FARMS OF WESTPHALIA *

(Marks per hectare.)

	1913-14.	1924-25.	1925-26.
Taxes	8'29	34'29	35'15
Social Contributions, Insurances .	5'83	11'73	12'99
Total	14'12	46'02	48'14

* Josef Montag, "Die steuerliche Belastung des Landwirtschaftlichen Besitzes in Westfalen," Münster, 1928.

In percentages of the net taxable proceeds calculated according to the assessed values (*einheitswert*), the above burden of taxation, etc., works out as follows:

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	1913-14.	1924-25.	1925-26.
Taxes	12'66	45'32	45'89
Social Contributions, Insurance .	7'7	15'87	18'68
Total	20'36	61'19	64'57

Although calculated on a different basis and therefore not without qualification comparable, the foregoing resembles the figures published in connection with certain big manufacturing concerns.

TAXES AND SOCIAL BURDENS OF SOME BIG MANUFACTURING CONCERNS IN PERCENTAGES OF THE GROSS PROFITS *

	Taxes.		Social Burdens.		Total of Taxes and Social Burdens.	
	1926.	1927.	1926.	1927.	1926.	1927.
Vereinigte Stahlwerke . . .	23	22	22	19	55	41
Friedr. Krupp A.G.	37	40	31	53	77	66
Klöckner . . .	22	24	23	22	46	55

* Calculated on the basis of the balance-sheets, Heft 10 des Wirtschaftsdienstes, 1928. By gross profits is meant: net profit plus taxes, plus social contributions, plus interest, plus depreciation.

The interest charges for first mortgages on rural and urban property have, it is true, gradually fallen since 1924, in which year they varied between 20 per cent. and 30 per cent.; but, including all costs, they still amount to 10-10½ per cent.

The heavy public burdens and interest have different effects in agriculture and industry. The reasons are these:

1. In agriculture the production takes place in millions of scattered undertakings. Consequently it has few possibilities of forming combines and shifting the burden of augmented taxation and interest on to the shoulders of

the national purchaser as is the case with the industrial cartels. With poor home crops, the protective tariff introduced in 1925 made it possible to raise the grain prices noticeably higher than world prices;¹ but where the home production permitted of rapid augmentation, as in the case of pork and beef, the protective tariff failed and prices fell so that a depression now prevails.

2. Agriculture has not at disposal the technical means with which the manufacturing industries, within their own process of production, are able to mitigate or counter-vail the effects of dear money, namely, the acceleration of their turnover. The rationalization measures of the industrialists are aimed largely at this goal. In agriculture, which is dependent upon biological processes, the output can be accelerated in only very restricted measure. Professor Beckmann has defined the cases in which dear money can be profitably employed in agriculture. One case is that of summer corn: owing to the shorter period between sowing and reaping and to the consequent quicker turnover of capital, credit may be employed for the purchase of surface manure. Again, in the "betterment" of dairy output, of swine and oxen fattening, provided the farmer is employing mainly his own feed and own capital (ignoring the customary interest), force fodder may be advantageously bought on credit for augmenting the milk yield or for completing

¹ Comparing matters with Great Britain, who is still supplied with foreign grain free of customs duty, we obtain the following figures:

WHEAT PRICES IN MARKS PER 1000 KG.

Year.	Germany Wholesale Price in Berlin, but f.o.r. at place of origin.	Great Britain (English Wheat, London).	Margin.
1923	167·8	198·2	—30·4
1924	184·8	228·3	—44·5
1925	243·6	245·3	— 2·0
1926	268·1	250·3	+17·9
1927	267·1	232·3	+34·8

the fattening process. These are also examples of "final" expenditure; it is a question of providing that final portion of the expenses necessary to achieve the peak of productivity. All such cases permit credit to be employed profitably, though not altogether without risk.¹

Wherever long-term investment is required, *e.g.* for building, for land reclamation, for soil improvement, for establishing new farms or for promoting the dairy industry, which was neglected during the war, borrowed capital is rightly eschewed. And yet, if obtainable at remunerative rates, how well might it be employed! In the high moors of north-west Germany there are areas equal to a whole big province which might then be brought under cultivation. According to inquiries made by the chambers of agriculture, Germany has altogether $8\frac{1}{2}$ million hectares awaiting drainage; the "Verein der Landeskultur-Genossenschaften" calculates the requisite costs—doubtless rather too high—at $7\frac{1}{2}$ milliard marks and the annual increase in output at 3 milliards. But, here as elsewhere, the means whereby most effectively to increase the productivity of the soil cannot be applied because the requisite sums are not forthcoming or, if obtainable, the interest on them exceeds, in most cases, the returns anticipated from the investment. In modest measure reclamation and soil improvement are being carried on by the small holders, who are doing the work little by little on their own account and without the assistance of any credit. In order, however, to accelerate the settlement of the moorlands and the drainage of water-logged soil, as well as to promote the dairy industry and, in particular, to establish new settlements on a big scale, the Central Government and the State Governments have decided to contribute towards the payment of the necessary interest. Unfortunately, however, the financial situation will confine this assistance within narrow limits. Nothing,

¹ Fritz Beckmann, "Kreditpolitik und Kreditlage der deutschen Landwirtschaft seit der Währungsstabilisierung," Berlin, 1926, p. 12 *et seq.*

perhaps, characterizes more typically the economic situation of Germany than the fact that only with such bonuses, is it possible to render productive the best wealth left to Germany, namely, the highly trained sons of her farming peasantry. But if the scheme can be ultimately carried out, it will mean the replacement of big but decadent concerns by young and vigorous village communities. It will mean, too, that a halt will be called in the decline of agricultural output.

But even where a satisfactory return on capital may theoretically be expected, *e.g.* in the use of artificial fertilizers for winter tillage, the annual interest enhances the risk to such a degree that many feel justified in admonishing farmers to purchase manure for this purpose out of their own savings only. In proportion to their productive apparatus, agriculturists must have more capital of their own at disposal than manufacturers, inasmuch as they must reckon with the risks of season and weather. Moreover, their capital must be proportionately larger than before the war, not merely on account of the dearth of money but because prices are far less stable. This increased instability is ascribable to commerce, which, also for want of funds, is unable to perform adequately its economic function of retaining sufficient stocks wherewith to regulate prices.

On all hands, in this impoverished country, the lack of capital owned by the producers themselves is the great detrimental factor. The agriculturists lost their savings in the inflation. Of course there exist also big well-to-do farmers, particularly such as made use of the inflation to reinvigorate their fields after the exhaustion caused by the war, or to renovate their farm buildings or replenish their implements, their machines and their live-stock. These agriculturists can farm intensively without the assistance of long-term credits, though they fail thereby to get the market rates of interest on the capital they have invested. But, all in all, capitalistic agriculture in Germany has become unremunerative for want of efficient capital of one's own. Excellent agriculturists,

whose farms were technically up-to-date—mainly they were East German estate owners—have fallen into distress because a single harvest proved bad or because, when one harvest was plentiful (1925), the prices of the chief crops sank too low.

The ultimate cause of the difficulties under which agriculture labours and of its inability to accelerate adequately production is to be sought in the lack of capital—capital which cannot be accumulated because of the continued payment of tribute. The origin of the disappearance of capital in agricultural circles lies in the heavy taxes imposed subsequent to Dr. Luther's financial reform in 1923—a reform undertaken with the object of restoring order in the currency system. The currency had collapsed under the pressure of the vast post-war expropriation and of Poincaré's efforts to enforce, by raiding the Ruhr, the payment of tribute under the London Ultimatum. In this way the liability to tribute gave rise to the indebtedness of the German farmers, and the country's political debt was transferred to private shoulders. The tribute makes it just as impossible to create a counterpoise to the lost agricultural districts which have a surplus output or correspondingly to increase that of even the growing population.

The exorbitant taxes of the transition period following the stabilization of the currency fell upon a farming population still suffering from the effects of war. The output of the soil and the increase of live-stock were far below pre-war standards, and the prices of almost all agricultural products were depressed by export prohibitions and the international agricultural crisis. Hence it is quite comprehensible that taxes often could not be paid out of profits, and that even where this could be done the payments absorbed the funds requisite for restoring the output capacity of the farms to its old level. For one or the other reason, therefore, debts were incurred at preposterous rates of interest which could only be met by taking up fresh credits.

On the whole, "family" farming has always proved the most robust, as the family itself consumes a large proportion of the products of the farm and makes little use of hired labour. These farmers generally have not run into debt; but they have avoided doing so mainly by redoubling their personal efforts and severely restricting their standard of living; while, even so, many of them are in very straitened circumstances.

The contrast between the situation of industry and that of agriculture will hardly last any great length of time. Many symptoms suggest that the distressed condition of the rural population will soon spread to the towns and the industrial districts.

Since the war, and especially under the Dawes arrangement, great social changes have taken place in Germany. Speaking broadly, the following modifications in the distribution of wealth have occurred. The rates of interest have been more than doubled; the absolute income, both of those who save and those who are *rentiers*, has greatly receded; the proportion of capital borrowed from abroad has greatly risen. Taking account of social benefits provided out of public funds, real wages and salaries have risen both absolutely and relatively as compared with pre-war standards. This has been done at the cost, partly of the manufacturers' profits, but, above all, of agricultural ground rents; in the strict sense of the word, these latter have vanished altogether, whereas the gradual increase of house rent will soon improve the position of the landlords in the towns.

(C) CONCLUSIONS

(1) Let us imagine Lenin's dream realized. Just as, once upon a time, in the war waged by the "Empires" against the Central Powers of Europe, so now a bolshevistic world revolution has united four-fifths of mankind in a war against Great Britain as the stronghold of capitalism. The British possessions and colonies have

deserted the mother country. Great Britain has been brought to her knees "not because she has lost the will to fight on, but because her forces have failed." Her oversea possessions, her mercantile fleet and her cables are taken from her; the British enterprises abroad and in the British colonies are destroyed by the confiscation of their property; all foreign concessions are declared void. The centres of the iron, coal and textile districts of Lancashire, Yorkshire and South Wales are awarded to the Irish Republic, all the British factories, mines, foundries and estates being expropriated without compensation. The victor States appoint a commission which imposes upon the torso of Great Britain a tribute equal to four-fifths of the British income tax on the ground that the remaining industrial centres have not been devastated and that the population is sufficiently intelligent and industrious to extend the country's exports and thus make it possible to transfer the tribute without any excessive difficulties. As guarantees for the payment, the British railways and factories are pledged to the victors; their receipts and the revenues from customs and excise are booked to the account of the victor States with the controlled Bank of England; all that is handed over to the British administrative authorities is the remainder left after deduction of the tribute. A large army of occupation, a demilitarized zone along the heavily fortified frontiers of the territories ceded to Ireland, and a fortified corridor across the defenceless country, combined with the prohibition of all effective arms—whether aggressive or defensive—and a prohibition of all training in the use of weapons, provide a guarantee that this nation of helots shall not evolve any such idea as that of some day resisting this exploitation.

No one in the world would doubt that the dense population of Great Britain would be doomed by such conditions to a most miserable existence. Still, the scheme would work for a time, if the victors supplied Great Britain annually with the necessary food-stuffs

on credit and granted the British centres of production and the public bodies loans exceeding the amount of tribute, even though the creditor States and the richest countries were to close their frontiers carefully against the importation of British goods, their example being followed by the other victor States.

The foregoing investigations have shown that, by the Peace dictated at Versailles, the German people has been subjected to conditions of life differing from the above fantastic description in degree only and not in kind.

(2) The classic theory of the equilibrium of international payments has shed full light on the essentials of tribute.¹ The experts of the Dawes Committee adopted these same views; indeed, there really can be no dispute about them.² Tribute can be permanently paid only out of the surplus of visible and invisible exports over imports. Accordingly, where there are no revenues from invisible foreign trade, the capacity to pay tribute is identical with the capacity to send a stream of goods abroad whose proceeds, after deducting the counter-stream of imported goods, are equal to the amount of the tribute. It is a matter of indifference whether, and if so to what degree, the tribute is paid in money or in kind. Both must be covered by payments received for exports. The balance of liabilities must be kept in equilibrium; if not, the country's budget and its finances generally will be thrown into disorder, its currency undermined and its economy driven to a crisis.

In respect, therefore, to tribute, outward and inward capacity are identical. The only difference is between the method of raising the money within the country and the method by which the tribute is transferred to the creditors. But the measure in which the tribute

¹ Cf. J. S. Mill's "Principles," Book III. chap. xxi. § 4.

² Even Mr. Auld (*op. cit.*, pp. 164 *et seq.*), who attacks British national economy with a lavish expenditure of platitudes wherever that economy appears contradictory to the French interests which he defends, sees no way of redeeming the loans or of paying the reparation sums except by Germany's becoming rich enough in five, or ten, or perhaps fifty years to produce an exportable surplus.

can be obtained from the sources of production is determined by the capacity to mobilize for export a surplus of real wealth equivalent to the tribute. This truth was also recognized by the experts. They did, certainly, see themselves forced for political reasons to fix the amount of tribute to be raised in the country irrespective of its economic capacity (*supra*, p. 77), and they took care that the sums due at any given time should be regularly paid over to the account of the Agent-General. But they made arrangements whereby the raising of the tribute should be moderated in proportion to any deficit in the export trade or that it should lapse altogether. The procuring of the requisite foreign exchange by way of loan was envisaged for a short transitional period only; it was expressly rejected as a permanent arrangement.

(3) The export surplus anticipated by many people has not materialized.¹ On the contrary, the import surplus now greatly exceeds the pre-war figures, the reasons being cogent and permanent.

To begin with, the annihilation of the invisible empire built up abroad by the German ship-owners, merchants and bankers and the seizure of German capital invested in foreign countries converted Germany, as it were over-night, into an over-populated country. For, like the other industrial countries cramped for room, Germany had accumulated in her towns and industrial centres a population far in excess of her own capacity to produce and export. This excess population lived upon that share of the natural produce of the "ample-roomed" countries which Germany had gained for herself by the investment of capital and the rendering of services. Income from abroad consequently formed one of the pillars supporting the structure of German economy. When that pillar was shattered, Germany's capacity to pay was reduced by 1½ milliard marks a year. With it there vanished the one and only fund out of which the German

¹ Cf. Rufus Dawes, *op. cit.*, p. 75. "But if Germany sustains herself as a strong, virile and productive nation capable of such vigorous industrial effort as she put forth before the war, then there will be such a surplus."

Empire, if left intact, might have paid the war indemnity without unendurably depreciating the nation's standard of living.¹ Germany was at once rendered incapable of countervailing in any way the deficit in her balance of trade.

At the same time, the adverse character of the commodity trade balance was increased by about 1 milliard marks. This was a result of the incisive change brought about in the structure of the German economy by the seizure of half the country's coal seams, the whole of its workable deposits of iron ore, the major portion of its zinc and lead, as well as extensive agricultural districts with a surplus output of produce. Of all the great manufacturing countries, Germany is now the poorest in raw materials; she has only coal and potash in sufficient quantity.

The creation of a counterpoise to these losses and the provision of subsistence for the increasing German population—already denser than before the war—was hampered by tariff walls abroad and by the need of capital at home—a need which cannot be met because the constant drain made by the tribute upon the country's resources renders it impossible to fill the gap which the war itself and the post-war expropriations have created in the national savings.

It is in this way that the serious situation prevailing in Germany's foreign trade has arisen. How menacing that situation is may be best realized by reference to the two diagrams reproduced on pp. 197, 198.

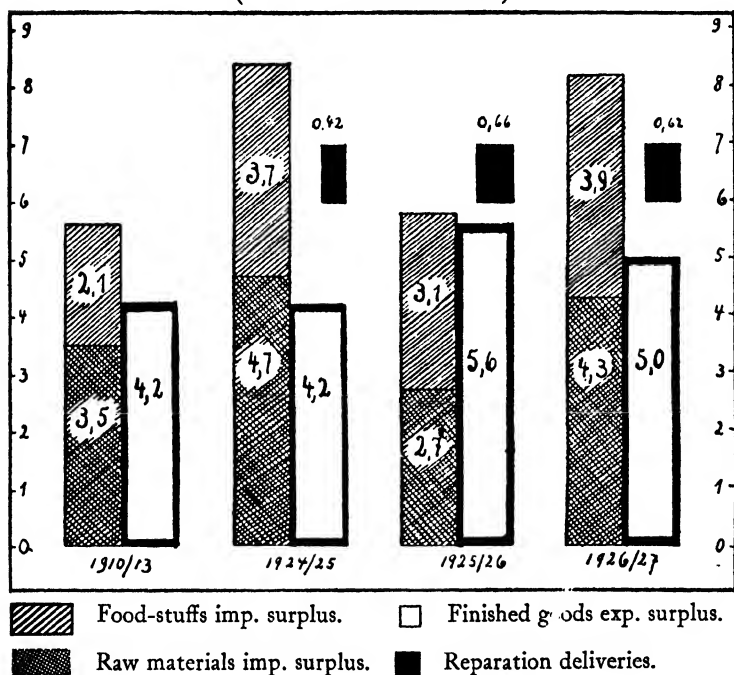
The manufacturing industry manages, indeed, to supplement its reduced requirements in the way of raw materials by imports from abroad for which it pays by its exports. It fails in general to pay for the country's increased imports of food-stuffs or, when it does so, the proportion is greatly reduced. The unbalanced portion

¹ These are the views very rightly stated by Professor Kurt Singer in "Wirtschaftsdienst" (July 22, 1927). Prior to the war it was possible to pay for all imports and to invest 400 to 500 million marks abroad every year.

of the imports is in some years doubled and some even almost trebled (3.7 and 3.1 milliard marks in 1924-25 and in 1926-27 as against 1.4 milliards as the annual average for 1910-13). As already explained, a slight surplus was achieved owing to exceptional circumstances in the period from December, 1925, to May, 1926, only.

GERMANY'S COMMODITY TRADE BALANCE IN 1910-13
AND UNDER THE DAWES SCHEME

(1 cm. = 1 milliard marks.)

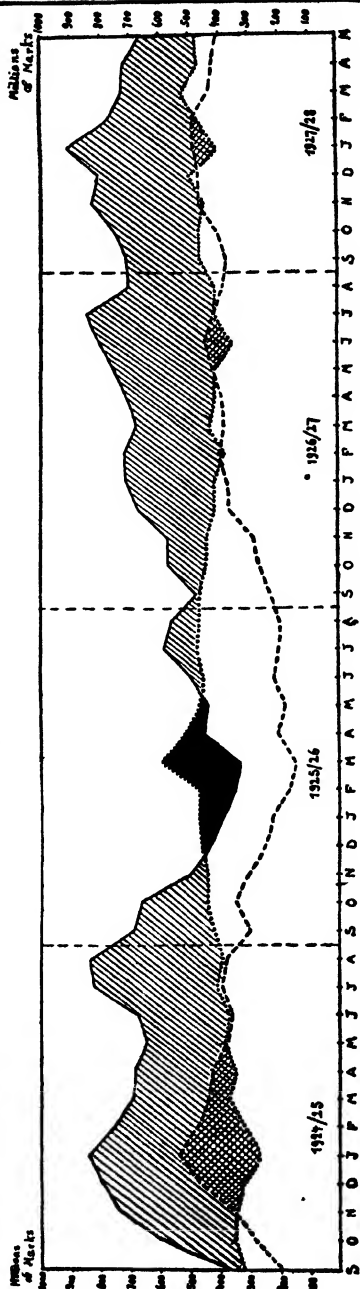


The German people sees itself compelled to procure its deficit of food-stuffs on credit and to provide the tribute plus the interest on loans out of fresh loans. Debt is heaped upon debt and interest upon interest.

(4) The actual conditions of the German situation are hidden from the superficial observer by the phenomena

MOVEMENTS IN GERMAN FOREIGN TRADE UNDER THE DAWES PLAN.

- IMPORT SURPLUS OF RAW MATERIALS AND HALF-FINISHED GOODS. EXPORT SURPLUS OF FINISHED GOODS.
 ——— IMPORT SURPLUS OF RAW MATERIALS, HALF-FINISHED GOODS AND FOODSTUFFS (INCL. LIVE ANIMALS AND BEVERAGES)
 ■ IMPTS. OF RAW MAT'L'S NOT COVERED BY EXPTS. ▨ IMPTS. OF FOODSTUFFS NOT COVERED BY EXPTS. ■ EXPORT SURPLUS.



of the industrial pseudo-prosperity which foreign loans have evoked. And yet it is just these phenomena which are particularly instructive as regards Germany's possibilities of development. They are so because that pseudo-prosperity in the industrial centres is merely a product of the determined resolution to exploit those possibilities to the utmost. Hence the great improvements in organization and technique by which the marked increase of manufacturing output has been achieved. But that determination soon found itself hedged in by the narrow conditions of the dictated peace, found itself up against the economic barriers which the "Empires" and the European States generally have raised in protection of their own trade, found itself hampered by that need of capital which the payment of tribute prevented it from satisfying because it prevented it from saving. Thus, it is not for lack of effort and energy, but in spite of the greatest conceivable exertion, that German foreign trade has fallen into such an unsatisfactory condition.

The pseudo-prosperity has caused an expansion of home consumption. The coarse luxury of the new rich arouses disgust both in Germany and abroad: among public bodies there is often a lack of that thrift proper to an impoverished people. The trebled social contributions and the increased taxation for inland purposes join hands with the tribute demands to prevent the accumulation of capital. But, viewed as a whole, consumption in Germany does not exceed the pre-war figures (pp. 170, 171). Accordingly, the increased adverse balance of trade cannot be attributed to any increase in consumption. The frequent assertion that Germany's adverse balance is due to the importation of commodities by means of loans, and the implication that, when the loans cease, an export surplus would automatically materialize, is contrary to "logical actuality." No, Germany owes her adverse balance to her increased shortage of food-stuffs and raw materials. To meet this shortage, unavoidable under present conditions, she is forced to

resort to credit ; consequently, the loans are not a cause but an effect ; they are the means whereby to satisfy a need.

That, contrary to the general rule, agriculture has not merely failed to share in the apparent trade prosperity but suffers from a distinct disappearance of wealth and from reduced profits, is in reality a manifestation of the very essence of the German economic situation, inasmuch as dear credit is employable in agriculture in only very limited measure.

Every improvement in trade involves a tendency to drive up prices. But, as already explained, the price movement, in the case under consideration, was restricted. Only when the period of pseudo-prosperity was coming to a close and many signs of a reaction became visible, did the enhanced prices act as a curb to exportation. On the occurrence of a reaction this curb would automatically disappear.

CHAPTER V

THE OUTLOOK

ARE there any ways and means of overcoming the more permanent hindrances to the development of an export surplus? In any attempt to determine the probable course of events, the inferences to be drawn from the experiences with the Dawes Plan do not fully suffice. The scheme, being an experiment based upon false premisses, fails to provide us with the requisite data; hence we must have recourse to the theory developed on the lines of classic national economy in the lively discussions on the transfer problem. This theory does not put the question as it is framed above with reference to the concrete conditions of production in the tributary country; it sketches the processes which must take place on the commodity markets and the money market under the influence of the imposed tribute, and draws the conclusion that the free play of forces "automatically" effects an adjustment of the economy of every tributary State to its payment liabilities. This adjustment takes place, first, with the aid of productive foreign loans attracted to the country by its high rates of interest, and, secondly, with the aid of a fall in home prices which diminishes imports and augments exports. In this adjustment the foreign loans also play a part in so far as they are adapted to mitigate the friction produced. It is our task to examine this theory, to collate it with the results of inductive investigation, and, enriching our knowledge by the facts ascertained and the phenomena observed, to penetrate closer to the core of national and international economics.

I. THE THEORY OF THE COMMENSURATE PRODUCTIVITY OF CREDIT. ECONOMIC EFFECTS OF FOREIGN LOANS AND TRIBUTE

The Theory

The productive character of foreign loans has been more particularly argued by American financiers, two prominent advocates being Mr. Rufus Dawes, the brother of the chairman of the First Commission of Experts, and Mr. P. Auld,¹ former Accountant-General of the Reparation Commission.

They draw their conclusions from the experiences of the United States during the days of colonization. Mr. Auld considers it quite natural that a debtor country should pay with new debts; that, he says, is just what the United States did. With the help of the fresh loans constantly attracted from Europe by the high rates of interest in America, they had been enabled to increase their wealth to such a degree that, in the years 1915 and 1916, they were in a position to pay off their debts at a single sweep, nay, even to become the creditors of the whole world. Just the same thing, they said, would happen with Germany. Now, this reasoning overlooks the fundamental fact that, in America, the foreign loans served to open up vast stretches of new country and to link them with the world's markets, whereas Germany is an over-populated industrial State—a State which, from a position of great wealth, has been precipitated into poverty by an act of political violence.

Mr. Auld also under-estimates the importance of the fact that Germany must not merely create an equivalent for the borrowed funds, but also produce the reparation payments. The United States was never tributary to anyone.

What has happened in America happens typically in

¹ Mr. Rufus C. Dawes in a speech made in July, 1925, and Mr. Auld in his book entitled "The Dawes Plan and the New Economic," with a preface by Rufus C. Dawes, New York, 1927.

all countries which pass through a period of development from a lower to a higher condition, whether they are colonial countries, such as the United States, Canada and Australia, or tribute-paying possessions like the East Indies. In all these countries an influx of foreign capital was essential to their economic evolution, and that evolution was accompanied by an adverse balance of trade. In all of them the result was a development of internal wealth which enabled them, sooner or later, to pay off their debts by exporting a surplus of raw materials and agricultural produce.¹

In contrast with the colonial countries, the peculiar character of the German economic conditions becomes very evident and enables an answer to be given to the question whether the "Law of the Reversal of the Trade Balance" is also applicable to Germany.

1. *The Productivity of Labour and the Remunerativeness of Capital in Countries Working "Extensively" and those Working "Intensively"*

"Young countries 'operate prodigally,' or, as the economists say, 'extensively.' On the American prairies a few hundred cowboys suffice to look after herds of cattle feeding on the pastures of whole States. Since the introduction of the grain binders,

¹ Cf. Ernst Schultze, Leipzig, "Das Gesetz des Handelsbilanzumschwungs in der Kolonialwirtschaft," Hans-Meyer-Festschrift: "Koloniale Studien," Berlin (1928), Reichsbankpräsident Schacht, "Eigene oder geborgte Währung," Berlin, 1927, pp. 4-5. The change from passivity or adverse trade balance to activity or favourable trade balance took place in the United States in the middle of the nineteen-seventies and in Argentina at the close of the last century; in British India the trade balance has become so favourable that a stream of gold and silver is constantly flowing into the country which was formerly tributary to England in the matter of precious metals. In "Canada's Balance of International Indebtedness," 1900-1912 (Cambridge, 1924), Professor Jacob Viner has shown that the heavy loans taken by Canada at the commencement of the twentieth century were connected with the opening-up of her western areas and, for the major part, entered the country in the shape of a commodity import surplus. But since the World War, Canada's balance of trade has become very active. Cf. F. W. Taussig's "International Trade," New York, 1927, pp. 222 *et seq.*

two and three furrow ploughs, etc., a farmer in West Nebraska farms, with the single help of his son, a wheat farm of 100 to 200 hectares. In the mines of young countries, only the richest seams are worked. In brief, the productivity of labour is incomparably higher than in old countries. Consequently, so too are the returns from capital and the profit of the undertaker. High wages and high interest go hand in hand. The technique of manufacture, like that of agriculture, is adjusted to amplitude of room and scantiness of population; the idea is to be saving of labour and lavish of material. On the other hand, densely populated countries are obliged to operate very economically or with great 'intensity'; the treasures of the soil are restricted; under the operation of the law of diminishing returns, the productivity of labour and the remunerativeness of capital are small. The finer the attunement of the productive apparatus, the greater the demand upon its capacity and the more evident the effect of the law."¹

In harmony with the conditions of production and the difference in the earning capacity of borrowed capital, 3 to 3½ per cent. was paid for well-secured long-term loans in Great Britain, 4 to 4½ per cent. in Germany, 5 to 6 per cent. in the eastern States of North America and 10 to 15 per cent. in the western. In Germany, as in Western Europe generally, manufacturers calculated everything on a basis of 4 per cent. interest for capital. If, instead, 2 per cent. could be reckoned with, technology would undoubtedly follow lines of development which are now closed to it and which would make very heavy demands upon capital.² Conversely, the sudden doubling of the rates of interest could not but severely curtail the possibilities of technical progress.

As a matter of fact, the above order of interest rates has been turned upside down. The American Union has become the great creditor of Europe; she has been enriched by the war in proportion as Europe has been impoverished. Of the loans accorded to Germany

¹ Sering, "Deutsche Wirtschaftskrisis," *Berichte über Landwirtschaft*, 1926, Band 4, p. 195.

² Gustav Cassel, "Theoretische Nationalökonomie," Erlangen und Leipzig, 1923, p. 203.

(1924-27), two-thirds were provided by the United States (3·4 milliards out of 5·2 milliards). Yet, even still, and although she has long since ceased to be a colonial country, the United States maintains an economic system which, compared with Central and Western Europe, is distinctly extensive. In the United States every 100 hectares of productive agricultural and forestal area are devoted to thirty people as against roughly 301 in Belgium, 236 in Holland, 222 in Great Britain, 147 in Italy, 141 in Germany, 96 in Denmark, 82 in France. Consequently, the rate of interest still remains higher even in North America than it was in Western Europe before the war. True, the federal land banks founded in 1917 provide mortgages on farms up to 50 per cent. of their value at uniform rates throughout the country; till recently, the rate was $5\frac{1}{2}$ per cent.; it is now 5 per cent. The joint-stock land banks, also established for financing farms, charge 6 per cent. The private banks of every description, which lend up to high values, charge from 5 to 6 per cent. in the eastern and central States and 7 to 8 per cent. in the far west. These private mortgages form about four-fifths of the entire indebtedness of the agricultural area.¹

During the past four or five years the rate of interest has gradually fallen to the extent of 1 per cent. However, large areas of virgin soil lie immediately adjacent to the United States; these areas are being brought under cultivation and are attracting the bulk of America's exportable capital.² Consequently, there is no present

¹ *Year-book of Agriculture*, 1926, Washington, 1927, p. 286.

² At the end of 1927 the foreign investments of the United States totalled $11\frac{1}{2}$ to $13\frac{1}{2}$ milliard dollars, of which the amount invested—

in Central and South America was	4·3 to 5·2 milliards.
in Canada	3·0 to 3·5 „
	<hr/>
	7·3 to 8·7 „

The investments in the rest of the world totalled only 3·2 to 3·7 milliards. (Cf. Department of Commerce: "The Balance of International Payments" in 1927, p. 20.)

prospect of a reduction of the American interest rates.¹

America's maximum rates for safe loans on her own continent equal the minimum rates at which she is prepared to lend money to Europe on like security. This is the effect of the "inverted indebtedness" of which Walter Rathenau once spoke. But the rates charged to the German borrower are considerably higher than the American minimum rates for loans to Europe. The reason is, not merely that the German lenders have to add their costs and risks, but also that the capital accumulated in Germany is so small in amount. The German loan rates are still above the earning capacity of borrowed money in the sparsely populated civilized countries of the world. Instead of 5 or 6 per cent., the German undertaker has to pay the capitalist from 9 to 12 per cent. and all the borrowers compete for the foreign loans which are still to be had cheaper.

The employability of dear money in densely populated countries.—In consequence of the higher rates of interest, the lack of capital has curtailed the number of cases in which borrowed money can be employed. This is in consequence of the famous law enunciated by J. H. v. Thünen, namely, that the rate of interest depends upon the earning capacity of that portion of the capital invested last. If, in consequence of the reduction of national wealth and the increased number of workmen to be provided for out of that wealth, the rate of interest is raised for other than economic reasons, the employability of borrowed capital becomes restricted to the exceptionally remunerative cases.² In

¹ However, it is difficult for American capitalists to find gilt-edged investments in their own country which yield 5 per cent. The market has been affected by the vigorous accumulation of capital and the rapid redemption of the American war loans. In New York, in April, 1928, well-secured American 4 per cent. railroad bonds varied between 95 and 100; whereas equally safe British railway debentures could be had for 80 or even less. *Economist*, April 14, 1928.

² Adapted to the well-known theory of Böhm von Bawerk, this might be stated in the following terms: "The point beyond which production can be carried on remuneratively is shifted backwards." Cf. J. H. v. Thünen,

Germany, the increase of the yield from final supplementary investments goes hand in hand with the diminished remunerativeness of the aggregate capital, which regularly lags appreciably behind the interest rates customary in this country.¹ In many cases, technical and organizatory improvements which seemed to open up favourable prospects have failed to reduce the costs of production and to expand sales because the economic limitations were ignored which had been created by dear money in union with heavy taxation.

The contrast with the young countries is most marked in agriculture. In such countries, foreign loans, attracted by high interest rates, have helped to convert prairies and steppes of almost continental expanse into fertile fields of grain. The natural wealth which, at a slight expenditure of labour, the soil was made to yield provided exports wherewith not merely to pay off with ease the country's debts but also to accumulate vast sums of capital. In Germany the doubling of the interest rate, combined with high taxes, has rendered the reclamation of moors and waste lands unremunerative and has hindered a more intensive cultivation of the soil whereby an augmentation of the yield from agricultural areas might have been achieved.

Except where sufficient capital was already owned by the agriculturist himself, any borrowing of capital for purposes of improvement, not to speak of paying taxes, has resulted in hopeless disaster.

Thus the theory of the commensurate productivity of credits directly contradicts both the facts and the indisputably correct theory of interest.

"Der isolierte Staat," 2 Aufl., II. Teil, Abt. I., Neudruck, Jena, 1921, p. 498, and E. v. Böhm-Bawerk, "Kapital und Kapitalzins," Abt. II., Bd. I., 4 Aufl., Jena, 1921, p. 456.

¹ Cf. p. 178, *supra*. As regards Mr. Long's error in supposing the increase in the price of money to be a sign of wealth and of augmented productivity as a whole, cf. pp. 179-181 above.

2. The Borrowers

Everywhere in the United States, in Canada and in Argentina, the private capitalists provided the where-withal for the pioneers to open up the country. For loans went primarily to the traffic undertakings which paved the way for the trek westwards. Attracted subsequently by the hope of big profits from speculation in land, capital flowed in readily and was lent by the banks to farmers, town-builders and business-men of every description.

The desire to render their undertakings remunerative is most strongly developed among private enterprisers. These are the chief accumulators of capital. It is customary to refer to the big German industrial undertakings and the foreign loans granted to them as the most typical case. But, even if we understand thereby also the shipping companies and other undertakings of a non-agricultural character, only 35 per cent. of the 5.2 milliards raised by public foreign loans went to such concerns; 13 per cent. was taken by the undertakings of public authorities. Now, if even the private undertakings are not always able to earn the money to meet interest and sinking fund charges and the unavoidable taxes, etc., much less likely is it that the municipal water works, gas works, electrical works, etc., will prove remunerative, inasmuch as their managers are neither forced nor accustomed to calculate with the same accuracy or acumen.¹ Nine per cent. of the proceeds of the public foreign loans went to the agricultural credit institutes. But, even leaving aside the 13 per cent. allotted to public undertakings, by far the largest proportion of these proceeds, namely, 43 per cent., went to the governments of the Reich, the States and the large towns and the churches and welfare institutes. In these cases

¹ Their profits, often nominally equal to those made by private enterprise, would not infrequently vanish if they were subject to the same taxation.

the productivity and remunerativeness of the investments are often very doubtful.¹ In any case, the State itself earns foreign exchange in only inappreciable quantities, and the provision of such exchange must accordingly be left to private economy.² Of late, therefore, these loans have been systematically restricted. This is a wise policy in so far as it follows the lines of the statement made by the German Government on October 7, 1927, namely, that "in consideration of the present situation, all non-essential or non-economic expenditure in Germany, whether out of foreign loans or other funds, should be unconditionally avoided." But we shall see that Germany's public expenditure is subject to coercion due to the reparation requirements.

Unquestionably, the foreign loans, both private and public, are all thoroughly secured, more especially those for which the taxpayer is liable. But here we are concerned with the economic question of how the loans as a whole have affected the German economy and what the future effects will be. In dealing with this question it

¹ True, according to the lines laid down by the Advisory Office created in connection with foreign loans for the States, communes and for similar administrative units, such loans ought to be employed for profit-earning investment only. But even the express objects for which the loans are raised frequently suggest the improbability of any such profit being made, cases in point being the improvement of docks and the construction of canals, the building of bridges, etc.; other examples are the purchase of shares in economic undertakings or the extension otherwise of state-owned property (*i.e.* the so-called "cold socialization"), with the result that the net profits are scarcely likely to be increased. But the actual application can hardly be checked. "If a commune has met non-essential expenditure out of home-raised loans or even out of current revenue, and has then obtained a foreign loan for an unexceptionable economic purpose, that is in effect exactly the same as though the foreign loan had served the non-essential purpose" (Reichskanzler a. D. Hans Luther, "Von Deutschlands eigener Kraft," Berlin, 1928, p. 71). Cf. R. Kuczynski, "Deutsche Anleihen im Ausland 1924-27," Berlin, p. 23.

² "Eigene oder geborgte Währung," Reichsbank-Präsident Hjalmar Schacht, pp. 23 *et seq.* According to Schacht, the expenditure of the communes for stadiums, swimming baths, open spaces, etc., for the granting of credits and for participations in private enterprise, totalled not much less than the aggregate amount of foreign loans borrowed by them. *Op. cit.*, p. 22.

is of paramount importance that we should ascertain the character of the values brought into the country by the loans.

3. The Values in Kind obtained by Means of Credit

Wherever credit is given it procures for the lender a power of control over capital. But, in general, the values borrowed abroad do not enter the borrowing country in the form of money but of commodities. The significance of the loans for the country borrowing them lies in the degree of their productivity, and their productivity depends upon the character of the commodities which they bring in. The creditor countries of Europe supplied the colonies and tropical countries chiefly with traffic mechanization and productive implements as well as with the equipment they required for their young towns, villages and farmsteads and with all kinds of household and similar utensils. In British India, in Egypt and elsewhere, they provided magnificent barrages and irrigation works. Here, again, the dimensions of the long-term loans received by Germany might well suggest that lasting values for the extension of the productive apparatus of the country would play a large part. Machinery and industrial implements of all kinds have, indeed, been imported. But the credits obtained in connection with the purchase of such lasting productive values are only short. Payment is effected out of the exports of manufactured goods—exports well known to exceed the imports. What is true for manufactures is true also for raw materials, these latter being the only foreign production goods which Germany needs in any great quantity. The purchase of raw materials on credit was of decisive importance only for a short period following immediately upon the conclusion of the Dawes Agreement. The foreign loans at that time greatly exceeded the tribute payments; together with the German banknotes flowing back from abroad, the

margin¹ served to replenish Germany's depleted stocks of raw material. The measure in which this took place at that time is to be seen from the diagrams on pp. 197, 198 above, and from the important fact that, in the subsequent years, the working funds intended for the purchase of raw materials were rapidly offset by the increasing exportation of manufactures. The foreign capital hitherto earmarked for those purchases was released for other purposes.

In the end, all that the foreign loans brought to Germany was food-stuffs and gold. These formed the import surplus and aggregated, in 1924-27, 7.97 milliard marks. Looked at from the angle of German production, these gigantic sums constitute a borrowed supplementation of the wages fund.² For this fund, as will shortly be explained, the long-term loans taken up for tribute purposes could be drawn upon to the extent of 2.3 milliard marks. Thus there remained 5.7 milliard marks obtained by means of the short-term foreign loans constantly renewed by the German banks, manufacturers and merchants.

At the close of 1927 the gold and gilt-edged foreign bills held by the Reichsbank and private note-issuing banks aggregated 1.9 and 0.3 milliards, *i.e.* 1.7 milliards more than towards the end of 1923. Besides this, foreign assets needed by international trade and the exporting industry have been acquired to an estimated value of between 2 and 3 milliards. For the formation of these foreign assets there stood at disposal 0.54 milliard out of the surplus of publicly raised loans over reparation.

¹ In 1924 this margin, plus the hoarded notes sent back, totalled 1721 million marks; in 1925 it amounted to 443 millions, and in 1926, 502 millions, while in 1927 it had become a minus to the extent of 75 millions. Further, it is to be observed that the nominal figures of the loans average 10 per cent. more than the sums actually lent, and that the dates from which interest begins to accumulate precede the dates on which the actual capital was received (cf. p. 159, *supra*).

² This phrase is used here in the sense in which it is employed by Böhm von Bawerk and Taussig, namely, as the nation's stock of means of subsistence at disposal for a given time.

payments and 1·2 milliards from the release of the notes hoarded abroad, and a not inconsiderable quantity of German securities¹ sold to foreigners; the rest was made up of profits on foreign trade and the proceeds of further loans.

The gold accumulated largely on credit by the Reichsbank guarantees the stability of the German currency; but, regarded from the view-point of production in the more limited sense of the word, it is a dear possession and also a dead one.

The payment of wages out of borrowed funds and the purchase of the wage-earners' victuals formed a peremptory premiss to the maintenance of the subsistence and working capacity of a large portion of the German people. But victuals are at once consumed. Those imported have not in any way directly augmented the stock of productive means which had been diminished by war, expropriation and annexation.

By providing German industry with working capital, raw materials and victuals, the loans enabled it to perform development labour on imported materials. But such labour leaves, in general, a very small margin, which in this case was curtailed by the tribute. In the international trade here in question, the margin sufficed to replenish the raw material fund; but it was too small to replenish the wages fund, which consequently had to rely continually upon foreign capital.

However, with the aid of the loans it has been possible to effect, in a short time, a considerable improvement of the productive apparatus—more particularly in big industry. The source of this continual increase in permanent concrete capital is revealed in the following paragraphs.

¹ For example, from March to June, 1928, 914 millions of gold mortgage bonds and municipal bonds were issued in Germany, 258 millions of which went abroad, 209 millions out of 339 millions following in July alone. However, it remains uncertain how much of this represents permanent investments.

4. Loans and the Reparation Payments

As no margin was available from exports, the tribute had to be obtained by borrowing. But only the one Dawes Loan granted to Germany was expressly raised for this purpose. What are the fundamental relations between the debts contracted abroad and the reparation payments?

The entire fund for the payment of reparations is formed by depositing to account of the Agent-General the proceeds of the controlled revenues and the charges imposed upon the railways and upon industry.

During the first four years of the Dawes Scheme, *i.e.* the moratorium and transition periods (1924-1927), 4.11 milliard marks was collected. Out of this the Agent-General paid, (1) in German currency, 1.85 milliards gold for deliveries in kind and 410 millions to the troops of occupation and to the Commission of Control; (2) in foreign currency, 1.85 milliards bought with German currency.

By means of public foreign loans sums were also raised which, after deducting repayments, aggregated:

	Nominal value.	Actual yield.*
1. Reich, States and communes †	2.86 milliard marks.	2.57 milliard marks.
2. Private economy ‡	2.25 " "	2.03 " "
	5.11 " "	4.60 " "

* Average yield is 90 per cent.

† The public undertakings participate with nom. 673,000,000 marks.

‡ Agriculture participates with 461,000,000 marks and shipping with 111 millions.

There exists a certain parallel between the two items of tribute payment and the loans of public bodies on the one hand and those of private industry on the other—a parallel which is scarcely accidental, but which is due to the following reasons.

The Dawes Loan of the nominal value of 960 millions granted to the German Reich served to cover the costs

of the deliveries in kind for the first year of the Scheme. For the following years the country was not permitted to raise loans abroad. But the Reich, the Federal States and the communes are financially so interdependent that they may be regarded as a single entity in respect of budgetary questions. Therefore, in the event of the tribute causing any incapacity to pay¹ on the part of the Reich, it was possible for the States or the large communes to raise the requisite amounts as loans floated in the name of some beneficial public object. Similarly the cash transfers of the Agent-General to foreign Governments may be brought into connection with the industrial loans. We leave aside here the question of the surpluses; they have been given above (p. 211) as 540 million marks in dealing with the creation of a gold and foreign exchange fund.

Regarded financially, the procedure is as follows:—The foreign currency sent to Germany as proceeds of the loans is sold by the borrowers, *i.e.* private firms or public bodies, as the case may be. Thus, these borrowers receive German money representing drafts against the home stocks of concrete wealth. A direct connection is created between the loans and reparations by two facts: first, the Agent-General makes use of the German money paid over to him to purchase foreign currency to the amount of his cash transfers; secondly, the bulk of this foreign currency emanates from the loans and not from the German export trade as had been expected on the ground of the Experts Report. As stated above, the foreign currency bought for cash transfers by the Agent-General coincides roughly with the aggregate of the long-term loans taken up by industry (1·85 milliards), so that it is quite permissible to regard him as purchasing it direct from German industry with a portion of the reparation amounts accumulated to his account out of the taxes paid by the German people. All this means, too, that big German industrialists have been supplied with capital to the amount of 1·85 milliards out of revenues provided by the German taxpayer; but the German

¹ Cf. pp. 194–195, *supra*.

economy has received nothing whatever, the money lent being equivalent to the money spent, *i.e.* spent as cash reparation payments. To the extent of 1·85 milliards, the capital controlled *in concreto* by the borrowing firms has been provided out of tax yield; hence, in this case, the German economy receives no real values whatever from the loan.

Thus, through the instrumentality of the Agent-General, 1·85 milliards of the long-term loans (totalling together 4·15 milliards) returned the way it came across the German frontiers. The balance of 2·3 milliards is almost the equivalent of the loans made to the German public bodies; it is the amount which, plus 5·7 milliards short-term loans, was bought by the German importers either from the Reichsbank or on the open market. This foreign currency bought by them was primarily used to import food-stuffs. Ultimately, the German currency with which those food-stuffs were purchased represents in the main the labour of the German people expressed in wages and salaries. But, just as the loans to the industrialists work round into cash payments for reparations, so, similarly, the loans used for purchasing food-stuffs work round into reparation payments in kind, on the production of which German labour is partly employed. The matter may be put thus:—Credit is given by certain foreigners for the support of the worker while he is producing the deliveries *in natura* to be sent gratis to other foreigners. Moreover, since the loans to the public bodies coincide roughly in amount with the value of the *in natura* deliveries, it is quite justifiable to regard these loans as entering Germany in the form of food-stuffs and as leaving the country again in the form of payments in kind.

From the standpoint of the country's economics, foreigners have, in this latter case, purchased *rentes* by supplying food-stuffs; while, in the case of the industrial loans, *rentes* have been surrendered to foreigners against a transfer of German currency from one German pocket to another. In both cases the foreign lenders obtain a

claim for interest either against the public budgets or against the private enterprisers in Germany.

Certainly this mode of accountancy is schematic in character. But it appeared indispensable to a clear view of the complicated processes involved, and it responds to the facts, inasmuch as it is primarily essential for the public budget to meet its deficits and for industry to obtain the investment capital wherewith to undertake the large-scale reorganizations described above and to bring their plants once more up to date.

German economy is again in a similar situation to that of 1924, in which year the German Government lent it money at high interest out of the proceeds of exorbitant taxation. At that time, under various titles, e.g. *notstandsdarlehen*, *erntebergungskredite*, etc., loans were granted to the more especially needy undertakings both industrial and agricultural; and it may be noted in passing that they did not always prove a blessing to the recipients. Now, however, the choice of the grantee lies with the foreign lenders. Their loans go to the safest borrowers; hence they select public bodies and the big concerns which are in a position to negotiate with the leading bankers of North America, Holland, Switzerland and Great Britain; these concerns are such as possess a more or less international repute.¹

The small business-men must, as taxpayers and freighters, bear their share of the reparation burden. Yet, if they are in want of foreign money, they require the intermediation of a national bank, and in return for its guarantee they must pay a risk premium. One important result of this is that the high rates of interest reflecting so clearly Germany's poverty of capital hit just those industrial enterprises hardest which, in great variety, devote themselves to the finest and final finishing processes and to the production of wares of prime quality,

¹ Cf. on this and the next paragraph, the excellent lecture of Prof. Kurt Wiedenfeld: "Die internationalen Wirtschaftskonferenzen und ihre Bedeutung" in "Sächs. Industrie," Organ des Verbandes Sächs. Industrieller, No. 15, v. 14.iv.1928.

inasmuch as, being dependent upon the personality of the principal, they remain relatively small, though they are precisely the enterprises which do most to sustain Germany's capacity to export. Thus, in addition to the changes described above (p. 192), a redistribution is in progress whereby capital is being shifted from the weak to the strong and from private to public enterprises.

Of the 1.8 milliards granted by way of foreign loans to non-agricultural private undertakings, two-thirds (= 1.2 milliards) went to the big mines, foundries and electro-technical works; while of this 1.2 milliards, two-thirds again passed to the heavy industries. But, owing to the loss of their raw-material basis, exactly these concerns had suffered most severely, so that, notwithstanding a brilliant reorganization of their equipment, their earning capacity remains very unsatisfactory and all their efforts to offset by increased exportation the loss just referred to have proved unsuccessful (cf. pp. 107 *et seq.*, *supra*). The only branches of German economy which have been able to achieve an improvement upon their pre-war foreign turnover are the chemical industry and shipping, and these have received only the small loans of 13.5 and 111.3 millions respectively.

The redistribution of capital mentioned above must be borne in mind in order to realize properly the effects produced by the foreign loans in the tributary country. As a means of promoting the capacity to export, the industrial loans have proved inefficient.

Since, in the interest of the trade balance, the deliveries in kind under the Dawes Plan are to involve the least possible use of foreign raw materials, the basic industries play, in this connection, the chief part. Taking the values given by the Agent-General in his reports, the percentages of the various deliveries in kind (Sept. 1924 to May 1928) work out as follows:—coal, coal by-products and coke (including transport) constitute 51.7 per cent.; chemical fertilizers 7.2 per cent.; dyestuffs and pharmaceutical products 2.7 per cent.; timber and

agricultural products (including sugar 2 per cent.) 7·8 per cent. Manufactures of all kinds, figuring as "miscellaneous deliveries," account for 30·5 per cent. True, this last item is rapidly growing, thanks more particularly to the most interested party, viz. the French Government, which does all in its power to expand the gratis deliveries chiefly serviceable in developing the economic equipment of France and her colonies.

But here again the big undertakings are given a preference over the numerous small manufacturers of high-quality goods in which labour forms a large proportion of the value. The firms receiving reparation orders are naturally pleased. The orders themselves promote employment in German industry, though truly with the qualification that a completed job in any particular branch is not at all necessarily followed by repeat orders in that branch, as, owing to the protests of French competitors, other branches are called upon to make the deliveries.¹ In respect to the nation's economy as a whole, these gratis deliveries *in natura* are just as much a medium of impoverishment as the cash payments.

Summarizing, we may say: The foreign loans have caused the contributions raised for reparation payments to remain in Germany. These funds, however, were not by any means distributed parallel with the incidence of taxation and, accordingly, have scarcely contributed to alleviate the national burden. One half went to big industry, which thus incurred an interest-bearing debt to creditors abroad; the other half flowed back into the public coffers for the payment of further deliveries in kind.

In essence, the latter of these processes means that food-stuffs supplied on loan and against interest were converted into deliveries made gratis to the tribute receivers—a process which certainly did give employment to German industry but did not in any way increase the amount of German capital. Closer inspection shows that big industry in reality owes the considerable

¹ *Frankfurter Zig.*, 1928, No. 588, and 12.viii.1928.

augmentation of its capital out of the loans, not to any real values brought in from abroad, but to the Agent-General's "compulsory savings office." The "tribute" taxes handed over to big industry in the form of foreign loans supplemented the sums paid to it out of public funds in compensation for the industrial plants and mines of which it had been deprived; but, as shown in detail above, this augmentation of capital, by failing to increase exports, failed also to countervail those losses. However, there remains a certain surplus, inasmuch as the foreign loans exceeded the reparation payments; this surplus has permitted the Reichsbank to accumulate a fund as security for the creditors.

Further arguments are scarcely necessary to prove that, in Germany, no such premisses exist as those which, under the laws of economics, make it possible for new and unexploited countries to employ borrowed capital and to create with it immense sums of wealth, sums which, in the end, sufficed not merely to repay the loans but also to reverse the balance of trade.

Certainly the foreign loans have produced effects whose value must not be under-estimated. They have brought German economy into gear. With their assistance, industry has been able to create a working fund of its own wherewith to fill up its depleted stocks of raw material and to keep them refilled as used up. The wage fund, continually replenished by means of extensive loans, made it possible to procure those food supplies which set vigorously flowing again Germany's last and almost sole source of wealth, namely, her labour. Real wages have recovered their pre-war level; if the social contributions are taken into account, they have even exceeded it. Thanks to the Agent-General's "compulsory savings institute," the basic industries and the shipping companies were enabled by the loans to supplement the liquidation indemnity granted by the Reich and thus to re-equip their factories and fleets in exemplary manner. Under these various influences there arose a vigorous will to economic reconstruction, and

this, in turn, gave birth to that trade improvement and animated economic activity among the town populations whose thousand-and-one different groups satisfy each other's wants by production and exchange within their local spheres. Out of the enormously augmented exchange of wares it was possible to provide the internal tribute without any very excessive friction. The effects of the loans granted to Germany extend beyond the limits of her own economy: the artificial restoration of Germany's purchasing capacity has caused an improvement in the international agrarian situation; the receipts from German tribute have increased the wealth of the victor countries.

But the foreign loans have failed to cure the essential evil—the only evil which, under other circumstances, they might have cured—namely, Germany's fundamental poverty. For the long-term loans merely provided funds for the payment of tribute instalments; what was received with the one hand was expended with the other, with the sole exception of what was requisite to replenish the Reichbank's stocks of gold and foreign bills. The economic organism which seems so vigorous has to be artificially fed with fresh loans and credit in a measure corresponding at least to the amount of reparation payments plus the value of the food-stuff shortage. For the German people has had tribute imposed upon it and has, at the same time, been rendered incapable of providing for its own sustenance with its own labour.

But for the tribute payments, German economy would gradually recover its strength. The foreign loans could be diminished by milliards of marks, and the reduction of the demand for money would correspondingly reduce the rates of interest. If the German people were convinced that they would themselves enjoy the fruits of their labour, they would revert to their old thrifty habits, especially in matters of public expenditure;¹ for, by working hard, the present generation, if

¹ After examining the issues of securities, the savings deposits and the deposits with the big banks, the Management of the Discontogesellschaft

exempt from tributes, might hope, not merely to cover its own requirements by production and foreign trade, but also to meet its engagements in regard to interest and sinking fund.

But the reparation burden prevents the accumulation of capital and raises the price of money to a level insupportable even in colonial countries. High rates of interest and burdensome taxation have laid shackles upon technical progress, have stopped the betterment processes in land cultivation and have paralyzed the competitive capacity of industry. The heavy burdens weaken the working capacity of the German people, for they make it impossible to cope with the housing shortage in the towns, to provide holdings for the increasing rural population and to relieve agriculture of its indebtedness. Wherever, for lack of capital, private enterprise fails to fulfil its social task, State interference becomes correspondingly essential and socialization necessarily ensues—a change in the economic structure scarcely calculated to promote productivity.

Thus the tribute payments stop the source from which alone they can be obtained. So long as they continue, no export surplus can be expected, at any rate not without changing the situation—above all, not without reducing the standard of living. This is a matter of importance, not merely to the receivers of tribute and

(*Wirtschaftsberichte*, Jahrg. 1928, No. 9, vom 15. 5. 1928) comes to the conclusion that, taken as a whole, the foreign loans contribute but little more than the marginal amounts which the profits of German economy do not suffice to cover. "If freed from the reparation load, we should no longer be dependent upon the assistance of foreign capital." This is, however, an exaggeration. For a long time further credit would be indispensable for procuring food-stuffs. Nor is rationalization, by any means, complete in the finishing industries. But if we imagine any possible increment of capital to be augmented by the reparation payments (from September, 1928, onwards, a milliard more than in the year 1927 dealt with above), the capital accumulating would, indeed, suffice to reduce the bank-rate to a level which would permit industry to carry out the expansions and improvements necessitated by the increase of population and would enable agriculture to undertake the requisite permanent equipments.

to Germany but also to foreign capitalists. At present the function of the American capitalist is to advance the money required by the Germans to pay reparations; the Germans hand over the money to the Allies, who in their turn pass one half on to the United States; the other half they retain, the bulk of it being used, either directly or indirectly, for armaments; these armaments are required, it seems, by the Allies for the purpose of keeping the tributary people out of their rights.¹ The effect of the Agent-General's activities is to withdraw from the American capitalist the funds out of which Germany's private liabilities have to be met. If the reparation liability continues, and still more if the increase of payments laid down in the Plan materializes, the end of it all will inevitably be that the private debts will be settled in bankruptcy² according to Germany's actual capacity to pay; the ownership of the big German undertakings will then pass into foreign hands.

That situation would ensue which the Dawes Committee intended to avoid, first, by fixing at "five milliard gold marks" the limit beyond which the accumulation of reparation funds should not proceed, and, secondly, by endowing the Transfer Committee with "the power to suspend accumulation before reaching five milliard gold marks if . . . such accumulation is [considered] a menace to the fiscal or economic situation in Germany or to the interests of the creditor countries." The five-milliard limit has already been overstepped and—at any rate for the "economic situation in Germany"—it is a matter of indifference whether the foreign funds are borrowed from the Transfer Committee with the right

¹ The French budget estimates for 1929 include an item of 1 milliard francs as France's regular net share of the Dawes payments, after deducting the costs of the army of occupation, the war-debts to Great Britain and America, the war pensions, etc. Simultaneously the expenditure for military purposes is raised by 1 milliard francs.

² "The pendulum of capitalism, which swings regularly backwards and forwards between success and failure, will then come to a standstill at an unsatisfactory but decisive point, namely, at bankruptcy." Bonn, "Befreiungspolitik oder Beleihungspolitik?" Berlin, 1928, p. 64.

to exchange the obligations for foreign currency or whether they are borrowed from foreign banks or private persons under the pressure of reparations. However, private creditors taking over German concerns would not be overjoyed at their new possessions, especially as they would, in their turn, become liable for the payment of tribute.

II. THEORY OF THE "AUTOMATIC" MATERIALIZATION OF AN EXPORT SURPLUS AND THE TRANSFER PROBLEM

Whenever the world's supply of capital is insufficient or when that capital finds better opportunities of investment in other countries than it does in Germany, or when Germany cannot provide suitable and reliable objects as guarantee for loans, or when the confidence of possible creditors is shaken—when, for these or any other reasons, capital ceases to reach Germany in adequate amounts, *e.g.* when foreign loans, for any considerable period, lag appreciably behind the reparation payments, the transfer problem makes itself evident in all its nudity.¹

¹ It cannot be expected that the loans will be indefinitely granted to Europe in requisite volume. The investigations of the United States Department of Commerce (Ray Hall, "The Balance of Payments of the United States in 1927") have shown the net amount of capital exported by the United States to be much less than people had hitherto supposed. The big net excess of commodity exports (\$548,000,000) is more than outweighed by the debit balance of tourist expenditures (\$617,000,000); the war debt receipts (\$206,000,000) scarcely counterbalance the immigrant remittances. However, the sales of gold (\$166,000,000) and, notably, the interest on long-term investments abroad (\$514,000,000), provide together \$680,000,000, almost all of which (\$665,000,000) can be placed at the disposal of foreign countries (*cf. op. cit.*, p. v). The much larger combined sum of new American investments abroad (\$1,648,000,000) and the repurchase of American securities (\$709,000,000) are faced by very large foreign investments in the United States (\$919,000,000) as well as by considerable repurchases of foreign securities from the United States (\$767,000,000). Great Britain has also become once more a leading lender of money, as may be seen from the estimates given in the *Economist* of June 2, 1928, according to which the American exports of capital from 1922 to 1927 totalled \$1,784,000 and the British £536,000,000 (= \$2,463,000,000); but this exported British capital goes largely to the British dominions, which, in 1927, raised £100,000,000 by

To some degree the arbitrage of interest in connection with the trade in currency, short-term loans and international stocks tends to counteract the disturbance caused in the equation of capital by enforced surrenders. But the sums involved in this arbitrage business are merely the marginal balances which may be skimmed from some money market or other by this means.¹

Beyond this, the annually recurring transfer of large values can be effected only by an export surplus. According to the prevailing theory, that surplus is brought about automatically by the payment of reparations. The theory adopts, in the main, the reasoning of J. Stuart Mill. His theory and all subsequent modifications² are based upon the idea that the equation of the balance of payments is restored by the reduction in the general level of prices (in the country having an unfavourable exchange)—a reduction brought about by the curtailment of the circulation.

It is a mistake, says Eucken, to regard the balance of payments as rigid. It is composed partly of rigid and partly of flexible items. Some of the rigid items are interest, sinking-fund charges and tribute; whereas the

means of loans in Great Britain, whereas foreign countries raised less than £50,000,000. In this connection, small countries, such as the Netherlands, Switzerland and Sweden, naturally play a relatively insignificant part. France, it is true, is about to resume her old position of money-lender.

¹ Mr. Auld, indeed, sees just as little limit to the working of the arbitration of exchange as to the permanent readiness of the investment market; but Dr. Palyi has rightly called attention to the fact that the short-term indebtedness of the United States is estimated by the Department of Commerce at rather more than a milliard dollars, while the American assets abroad are not easily realizable.

² On the following paragraphs compare J. Stuart Mill's *Principles of Political Economy*, Book III. chap. xx-xxii; W. Eucken's "Das Übertragungsproblem, Ein Beitrag zur Theorie des internationalen Handels" (*Jahrbücher für Nationalökonomie und Statistik*, III. Folge, 68 Bd., Jena, 1925, pp. 145 ff.), and the able and learned arguments of Dr. Palyi in "Der Zahlungsbilanzausgleich bei einseitigen Wertübertragungen" (*Archiv für Sozialwissenschaft und Sozialpolitik*, 56 Bd., 2 Heft, Tübingen, S. 302 ff.).

balances of visible and invisible trade are flexible, inasmuch as they are contingent upon the prices at home and abroad. A fall of prices takes place when the demand raises the rate of exchange beyond specie point, so that gold begins to leave the country and the purchasing power of money rises. This is the classic case of the economists. But if, as in Germany, it is desired, for currency reasons, to effect the payment of tribute with the gold of the central institute, that institute will exert a deflating influence, *i.e.* it will raise the bank-rate and a restriction of credit will ensue.¹

A rise in the price of foreign bills up to specie point fails to reduce sufficiently the price of home goods. But the efflux of gold or the restriction of credit by the Reichsbank diminishes the circulation and affects production and consumption. Dealers and manufacturers sell off their stocks. A drop ensues in the demand for commodities, both home and imported. Industry adjusts itself to exportable manufactures. As a result of the higher rates of interest, this adjustment is coupled with a discharge of hands, and the standard of living consequently falls. The effect upon the trade balance is a further restriction in the importation of food-stuffs and raw materials, while exports increase. The foreign bills requisite for the transfer of tribute stream rapidly in; the transfer can be effected. The deflating influence must be continued till the requisite export surplus becomes a permanent phenomenon, and the entire economy of the country, having passed through a period of economic friction, adjusts itself to the new situation.

The economic friction, however, is mitigated and the adjustment facilitated by short-term foreign loans. The

¹ Eucken assumes that the retention and accumulation of the amounts transferred to the account of the Agent-General suffice in themselves to cause a scarcity of money. But this is not the case, since the Reichsbank can use these amounts for short-term loans. Moreover, the reports of the Agent-General show that he has never allowed large sums to accumulate; he considers it preferable to make deliveries in kind and to purchase foreign currency.

loans already granted have prepared the way for the adjustment by improving the industrial equipment.

As soon as an export surplus has materialized which provides not only for the cash transfers but also for the deliveries in kind, the equilibrium of payments will be established. As John Stuart Mill puts it :

“The exchange will be at par, the two debts will be set off against one another, and the tribute or remittance will be virtually paid in goods. The result to the interests of the two countries will be as already pointed out : the paying country will give a higher price for all that it buys from the receiving country, while the latter, besides receiving the tribute, obtains the exportable produce of the tributary country at a lower price.”¹

The correctness of this reasoning must be admitted ; it would appear purposeless to put forward objections to the theory itself.

But there neither is nor can be² any empiric proof of Mill's hypothesis of the equation of payments effected by the economic necessity paramount in every tributary debt-encumbered country. The analogy drawn between such countries and agricultural States opened up by means of borrowed capital fails for the reasons already stated.³ Mill and the other classic theorists assumed normal economic relations. Their experiences in regard to the transfer of capital outside the control of economic law were confined to relatively small amounts. Our case is new in the history of modern civilization. Never before has a civilized people been subjected to the payment of heavy tribute and, at the same time, been deprived of those sources of production without which it cannot exist. It is hardly likely that, under the circumstances in which Germany has been placed, the mechanism of

¹ John Stuart Mill, *op. cit.*, Book III. chap. xxi. § 4.

² Palyi, *op. cit.*, pp. 317 *et seq.*

³ The French indemnity under the Peace of Frankfort is just as little to the point. The 5 milliard francs then paid was an insignificant sum in comparison with what is demanded of Germany ; in the main, the French indemnity was settled, partly, by a single loan, and, partly, by the surrender of the large amounts of foreign securities held by the French people.

prices will work automatically and produce the desired effects. The chief import items in the German trade balance can scarcely be reduced without a serious alteration in the nation's standard of living. A great and enforced change has, indeed, taken place in the balance of trade since the war—a change in the wrong direction. There is an unfavourable balance of between 3 and 4 milliards for food-stuffs which must be offset before there can be any idea of paying tribute at all out of surpluses. In almost all branches of industry an augmentation of exports is contingent upon augmented imports of raw materials. But the price of raw materials and food-stuffs is fixed on the international market and is consequently unaffected, in the first instance, by any rise in the price of money in Germany. The high price of money has already acted as a severe drag upon technical progress in industry and agriculture. German industry, already at a disadvantage owing to heavy taxation and dear money, will be even more severely handicapped if, as the theory assumes, the bank-rate is raised still higher. The raising of the bank-rate by leaps and bounds results in an enforced sale of stocks and a temporary increase of exports. But though an excessive bank-rate may be requisite for the entire "period of readjustment," it will, if it becomes permanent, impede exports instead of furthering them. Moreover, readjustments cause large losses of capital and presuppose a modification of the international division of labour. This division of labour has been determined by natural and historic factors, and any interference with it is bound to involve serious conflicts.

In fine, no export surplus equivalent to the tribute and loan charges can be expected. If the doctrine of the automatic equation of the balance of payments had the force of a natural economic law, it would mean that unlimited wealth could be continually extracted from the smallest and poorest country.

"The quantity theory," says Dr. Palyi, "possesses the great advantage of simplicity. One need only visualize clearly the

mechanism, and every problem appears solved once and for all. . . . It is only necessary to raise the price of money in order to be able, as it would seem, to squeeze any desired sum out of a nation's economy and place it at the disposal of another ! ”¹

“ But the finest country cannot give more than it has.”² And when a nation needs foreign credit for its bare existence, it obviously cannot pay tribute out of its own resources.

On the other hand, however, the reduction of circulation appears, in the circumstances prevailing in Germany, to be anything but the condition for changes tending to produce an export surplus. I will assume that, for the present, credit continues for the supply of food-stuffs. Further, I will merely assume that the loans to Germany are stopped or at least greatly restricted, whereas the tribute continues. The funds held by the Reich and the States remain at the disposal of the Agent-General for reparation payments and the tribute can be transferred without any great demand being made upon the foreign bills market, if the *clarté française* succeeds even better than hitherto in making use of the deliveries in kind. Assuming all this, the arbitrage of interest may suffice to procure the reduced quantity of foreign bills requisite to make the cash transfers. If, in this way, the tribute continues to be levied and transferred without further loans being raised, the pseudo-prosperity at present observable in home trade will cease, since it was a result of the efflux of capital being more than counteracted by a greater influx. The reaction may be postponed by an improvement in international trade, but it cannot be prevented if the conditions just set forth materialize. Then taxes will become prodigious, arrears in the payment of them will accumulate and deficits will occur in the budget which it will be impossible to meet, since many governmental expenses, *e.g.* salaries, social benefits, etc., are of a rigid character. The other expenses—*i.e.* the non-rigid public expenditure—will be

¹ Palyi, *op. cit.*, p. 338.

² B. Nogaro, *La monnaie*, Paris, 1924, pp. 210 *et seq.*

curtailed to the utmost and private demand will also shrink. With the cessation of foreign loans the forces which helped to set the German economy going again are paralyzed. The interest rates become exorbitant; many factories are closed down, the ranks of the unemployed are swelled, earnings dwindle progressively. With falling prices and ceasing sales the imports of raw materials and manufactures diminish and exports increase, though scarcely in the measure requisite to establish an equilibrium in the balance of payments.

Picture to ourselves the order of events as we may, the levying of the tribute without foreign loans necessarily produces a severe economic crisis. And such a crisis jeopardizes short-term loans¹ and raises the spectre of hunger in many a household. It is a crisis differing utterly from the ordinary rhythmic depressions in economy. It has its prototype in that economic dislocation which was brought to a crisis by the Ruhr Raid of 1923. At that time the inflation lowered the general standard of living in Germany to an inhuman level, caused a restriction of imports and led to the notorious "clearance sale" in the German economy, with the result that a small export surplus occurred.² At present the German monetary system is fully protected against any such disruption as then took place. Nevertheless the enforcement of tribute payment is bound to end in a similar situation. Agricultural property has ceased to produce any rent; the profits on enterprise have been greatly reduced; the price charged for money by the lenders cannot be lowered on account of increasing lack of capital. Thus it is the earnings of labour that must yield to the undiminished pressure of tribute. Either the legislative exemption of wages from the free play of

¹ Short-term foreign loans are obtainable with the bank-rate at 7 per cent., but scarcely at 12 per cent., while 15 per cent. virtually stops them altogether because it destroys confidence. A country offering 25 per cent. gets no money at all.

² Computed on the values of 1913, the surplus in 1923 aggregated 500 millions. The figures, however, are uncertain, owing to the "hole" in the western customs frontier.

economic law will have to cease or unemployment will increase. As Professor Keynes once stated, it is in the end the German workman who has to pay the tribute. But the workers will not submit without a hard fight. What the social and political consequences of such a crisis will be it is impossible to foresee.

But one thing is certain: the object lesson of the Ruhr Raid will be repeated and the world will be taught once more that, if a great civilized people be plunged into misery, it drags all the other nations along with it. Above all, the farmers throughout the whole temperate zone will be involved; for Germany will once again assume the rôle of the "marginal purchaser"; to refuse to sell to her would mean that a large proportion of the grain and meat stocks would remain unsold altogether, while to sell to her means that her standard of wealth determines the price of the whole. Thus the international agricultural crisis, with its reactions upon the industrial world, is repeated. This is the only alternative to the payment of the reparations by foreign capitalists.

III. THE TRANSFER PROVISIONS

In Chapter III I have already referred to the protective clauses concerning transfer. These clauses have not taken effect because the foreign loans have provided a sufficiency of foreign bills wherewith to make the cash transfers. Will they prove efficacious if the loans cease? Let us recall their provisions. It is the task of the Transfer Committee to adapt the transfer of tribute to Germany's capacity to pay. The excess of exports over imports was fixed as the measure of that capacity. The Experts Committee reckoned with a gradual cessation of the deliveries in kind, which it regarded as abnormal; they believed that a disproportion between reparation demand and capacity to pay would always find expression in the exchange rates, because the demand for foreign bills on the part of the Agent-General would drive the price of those bills beyond specie point. This

would jeopardize the German currency. Accordingly, the Transfer Committee was instructed "so to act as to secure the maximum transfers without bringing about instability of currency." The provision was made at a time when currencies generally were in confusion and the German currency had just been stabilized. People therefore believed that any jeopardization of a country's economic and financial system due to an adverse balance of payments must involve a menace to its currency. But Germany's currency is absolutely secured by the exclusion of every excessive demand upon the Reichsbank on the part of the Government and by the clauses of the Reichsbank Act concerning backing. The managers of the Bank also take every care to keep the rate of exchange within the inward and outward specie points. In these circumstances protective provisions in regard to transfer based quite superficially upon the rate of exchange must prove ineffectual.

On the other side, "the German Government and the Bank" are "to facilitate in every reasonable way . . . the work of the Committee in making transfers of funds." According to the theory developed above, this facilitation involves the following procedure:—whenever gold and foreign exchange are not available in sufficient quantity, the Bank's discount rate is raised for the purpose of attracting foreign bills and exercising a deflating influence on German currency; in this way the value of the mark is to be raised at home and abroad, imports are to be restricted and exports promoted. If "the Committee is of the opinion that the Bank's discount rate is not in relation to the necessity of making important transfers, it shall inform the President of the Bank." Reading all this in connection with the clause concerning "concerted financial manœuvres either by the Government or by any group," and the legal provision concerning the discharge of the Bank President by at least nine out of fourteen votes (six being German) of a General Board, one half of whose members are foreigners, one might imagine the Reichsbank to be obligated to resort

to the procedure described above, even if thereby a crisis were caused in the country's economy—provided only it did not affect the stability of the currency and of the exchange rate.

But it would be contrary to the prime task of a central bank of issue if it adopted a policy which, by promoting the dumping of exports, ruined the country's economy. It would also be contrary to the fundamental purpose for which the Transfer Committee was created, namely, to see that the German economy should be left sufficient payment media for the maintenance of a healthy and progressive economic life. Dr. Hjalmar Schacht, the President of the Reichsbank, has very properly said: "Currency must not merely possess stability, it must also provide the economy of the nation with a sufficient quantity of stable payment media."¹ The experts expressly recognized the necessity for preventing disaster,² for preserving an equilibrium in the balance of payments and in the public budget. They also expressed their desire to assess the payments in such a way that they might be raised by the German people "without impairing a standard of living comparable to that of the Allied countries and their neighbours in Europe."³ The Managing Board of the Reichsbank ought to decline any measure which, in its opinion, would cause economic or social disturbance. Consequently, despite the formalistic structure of the protective transfer arrangements, those arrangements are justified as a means of preventing crises. The Agent-General and the Transfer Committee cannot demand that the transfer should be facilitated by a policy which deprives the German economy of a sufficient amount of stable currency and involves it in a crisis.

The protective transfer provisions will accordingly become of practical value as soon as the loans lag behind the reparation payments totalling 2,500 million gold marks a year from September, 1928, onwards.

¹ H. Schacht, "Eigene oder geborgte Währung," p. 1.

² Report of the First Committee of Experts, XIII.

³ *Ibid.*, XVII.

It is doubtless this view which has induced the Agent-General to advocate a definitive fixation of the German reparation liabilities; that he has adopted such a course is a proof of his great economic insight. But Germany must be cautious. The protective transfer provisions have for her the advantage of preventing the Railway and Industrial Obligations from being sold. If, as France in particular seems to desire, they were released from this protection and placed on the market, the 16 milliards of German indebtedness which they represent could never be reduced—not even if the United States should moderate or cancel her claims upon the Allies as advocated by influential groups of Americans.¹

Political Conclusions

It is not within the province of science to offer diplomatic advice. My task, as a political economist, was to disperse the mists enshrouding the real economic situation of Germany. But truth requires us to formulate the demands of justice.

The Dawes Report contains the idea that the German reparation payments are to be regarded as a contribution towards the reconstruction of Europe and as justified by this fact. The bibliography on the subject has increasingly stressed this idea in the ratio in which the arguments based on Germany's "sole" responsibility for the war have lost ground. International solidarity, if it were a real living factor, would afford a most satisfactory solution of the whole problem. Due regard being paid to the capacity of the various peoples which engaged in the war, each of them might then take its share in the common burden in proportion to the profits or losses accruing to it out of the war and the respective peace treaties. Hitherto, by far the heaviest load has been shouldered upon that nation which suffered the severest losses. That nation's possibilities of subsistence and its

¹ Cf. the reports of the departments of political science of the universities of Columbia and Princeton made in December, 1926, and March, 1927.

national wealth, like those of its former allies, have been cramped and confined in direct proportion to the expansion of territory and of economic range accorded to the victors. Germany has to bear a burden equivalent to double the aggregate sum of debts owed to the United States of America by thirteen ex-belligerent countries.¹

But as yet international solidarity in economics is anything but a living thing. On the other hand, the idea of justice and of justice as an ideal is common to us all. It is paramount above economics. The dominion of force withholds peace from Europe. The first step towards the restoration of real peace was taken by the experts. But those clear-sighted men could take, as it were, only a faltering step because they were not permitted even to touch upon the question of right and wrong, of justice and injustice. They were not left a free hand to act as they thought most fitting; for the French held the Ruhr Basin, and under the instructions given them they were bound to respect the Treaty of Versailles and the London Agreement. They could not ask, "What does Germany rightly owe?" Nor could they fix the definitive amount of the reparations according to the economic capacity of the debtor, though even the Peace dictated at Versailles had not been altogether able to ignore that point. They were inhibited from investigating Germany's capacity to pay; and their attempt to effect a limitation of the payments by a circuitous route has so far failed because all the money loaned to Germany can be retransferred.

If we are to tread the road to permanent peace, the obstacles must be cleared away which, according to the experts' own statement, prevent the Dawes Plan from affording anything more than a provisional settlement. A really international committee must be appointed comprising nationals of the defeated States and presided over by an impartial chairman.

¹ Cf. footnote pp. 223-224 above; also Sering, "Internationale Preisbildung und Lage der Landwirtschaft in den aussertropischen Ländern," Kap. IV., Abschnitt IV.

This international committee should be instructed to inquire what engagements Germany and her allies entered into in the preliminary peace. It would have to check the assessments of the losses suffered by the civilian population in the occupied territories and the estimates made by the Reparation Commission; it would also have to determine the amount of the reparations already paid by Germany.

Should the results of the investigation show that the civilian population had not been fully indemnified, the international committee would have to inquire whether the amount still needed to complete the indemnification were within the limits of the capacity of the debtor State. In undertaking such an inquiry, the international committee would have at its disposal the extensive and now almost complete data provided by the Committee Appointed under statute to Investigate the Production and Marketing Conditions of the German Economy.

The report of the international committee would provide a reliable criterion as to the correctness of the views I have put forward. The deductions are obvious.

So long as the injustice done has not been redressed and the economic situation completely and conscientiously ascertained, no reunion of the nations can prove a blessing or establish that real peace for which the world is longing.

The claims here advanced are in full harmony with the dignified utterances of M. Briand on the occasion of the signing of the Paris (Kellogg) Pact. "In that memorable hour," as he himself called it, on the 27th of August, 1928, he spoke these words:—"Peace acclaimed is an achievement; it is a great achievement; but it must be organized. That right, and not might, must prevail: that is the work of the morrow."

APPENDIX

SPEECH BY PROFESSOR DR. SERING, BERLIN,
IN THE AGRICULTURAL COMMISSION OF THE WORLD ECONOMIC
CONFERENCE ON TUESDAY, MAY 10TH, 1927.

GENTLEMEN,

I have taken the liberty of tendering you German and English copies of a study concerning International Price Movements and the Condition of Agriculture in Non-Tropical Countries. By means of figures and diagrams prepared upon uniform principles, it shows the movement of prices and the elements of which that movement is composed. Only those agricultural mass products are discussed in it which serve as food for the manufacturing populations of Europe. The prices are determined by the trade between the more highly industrialized districts of Europe (Great Britain, Belgium, Holland, Germany and Scandinavia, France, Italy, Switzerland) and the thinly-populated countries which produce, by extensive cultivation, the big agricultural surpluses. This exchange between agricultural and industrial countries is the pivot on which world commerce turns, that world commerce which binds the whole of civilized humanity together since the earth has been girdled by railways and steamship lines. The *price relation*, then, in which agricultural products stand to industrial goods on the world market is decisive for the economic welfare of the hundreds of millions of people concerned directly or indirectly with world commerce.

In these exchange relations there have been two great crises. The first crisis lasted from 1875 to 1900, the second began in 1920 and is by no means over yet.

The first great agricultural crisis I shall pass over with a few words. It was a consequence of the greatest colonization of all times, which after rapidly opening up the western prairies of the United States was continued after the eighties in Canada, the La Plata region and slowly also in Australia and South and North Africa. By flooding the markets it caused a heavy fall of grain prices, but—in contrast with the present-day situation—was accompanied by a brilliant rise in Middle and West European and East American industry. In sharp contrast with our own days,

industry in these areas was plentifully supplied with raw materials and food-stuffs and found abundant markets in the new countries, which had to be provided with all the resources of modern civilization.

For this reason the grain-growing countries of the European continent were able to protect themselves against the great wave of overseas competition by customs duties without lowering the standard of living of their industrial population.

But with the turn of the century the period of overflowing wealth came to an end. Between 1900 and 1914 agricultural prices rose very high. The change was caused by the conclusion of the colonization of the western areas of the United States. Since the nineties the United States have completed with extraordinary rapidity their transformation into an industrial State. The number of their urban consumers has increased more rapidly than their agricultural output. The consequence has been a rapid decline in the agricultural exports of the United States.

All the other colonization areas together were incapable of replacing this deficit; for none of them is so favoured in natural conditions of production as the United States, and none of them offers the needier colonists such favourable terms as the United States of America at the time of the opening up of the West.

And thus the increasing need of food-stuffs on the part of the industrial populations of Europe could no longer be satisfied by *extensive* farming. The growing demand for bread-corn and meat made an increase of the output per unit of area necessary. As a result of these circumstances, that price standard was restored which, save for a quite exceptional period of twenty-five years, had persisted for centuries, viz. the standard formed by the tendency of agricultural prices to outrun industrial prices. This tendency is caused by the law of diminishing returns, according to which, other things being equal, it costs more to produce a hundredweight of wheat by intensive cultivation than by extensive. Thus "other things being no longer equal," intensive agriculture, even in free trade countries, again became profitable, agricultural prosperity revived, and the foundations of prosperous development as a whole were strengthened.

This upward tendency was interrupted by the war. During the war the United States and Canada undertook the task of replacing the loss of the supplies from Russia and the Danube countries. The remoter southern continents supplied farm products of high specific value, *e.g.* meat, butter and cheese. The wheat-growing areas in the United States and Canada, under the *stimulus of double prices*, were extended by about 10 million hectares between 1914 and 1921. Then the war boom suddenly broke

down in the spring of 1920, when the American Government ceased to grant further credit to the Allies, and it became patent that these countries were not in a position to pay for the American produce out of their own resources. A general collapse of prices occurred, but the slump in agriculture was much severer than in the manufacturing industry. The resulting ratio of prices was once more adverse to agriculture, and the farmers—dependent upon the sale of food-stuffs to the European manufacturing populations—were no longer able to cover their costs of production. In the United States from 1922 to 1925, about 25,000 farmers went bankrupt, and about three million people left the farms; in 1922, 7·3 per cent. of the farms were ascertained to have been given up by their owners. Starting from the United States, the crisis involved all other countries producing grain and meat.

What were the reasons for the price decline in agricultural produce? They are not to be found on the *supply side*. Measured by pre-war requirements, there can be no question of an excess production of bread and meat, as will be seen by reference to Diagram XII, pp. 24-25 of "International Price Movements." The diagram shows that, except in Italy and Spain, the inhabitants of Western and Central Europe had less bread-corn during the severe depression from 1921 to 1924 than before the war. Even following upon the rich harvest of 1925, the food-stuff supply in the industrial areas proper was by no means as favourable as in pre-war years. Moreover, as far as can be ascertained, the number of home slaughterings has been so reduced that, despite increased imports from Argentina and Australia, the supplies of meat in all manufacturing countries except Great Britain are lower than they were before the war. Thus, on the *supply side*, the conditions are similar to those of pre-war years. As then, so now, the United States are again about to restrict their grain and meat exports to very narrow limits (compare the coloured curves on the figures in the pocket at the end of "International Price Movements"). Their agriculture is being adapted more and more to the requirements of an industrial country by the expansion of their dairy-farming and certain intensive branches. Everywhere east of the Mississippi less wheat and even less maize is being cultivated to-day than in the year 1900. Before the war, Russia and the Danubian countries took first place as wheat exporters; since the war, however, the supply from that quarter has almost ceased; it has never been possible to replace the loss of Russian fodder-barley in any way. The colonial countries proper, *i.e.* Canada, the Argentine, Australia and New Zealand, develop very slowly, as there is a lack of wealthier immigrants.

If the reason for the unfavourable development of agricultural

prices is not to be found on the supply side, it must be sought in the demand.

Prices are abnormal because Europe's capacity to compete and the income of the European industrial population have been reduced. According to incontrovertible laws, it is the capacity of the indispensable "marginal purchaser" which determines the price of the whole in any given market. Among all the nations dependent on agricultural imports, the German people is the most impoverished.

The agricultural distress, therefore, reached its climax when, in the year 1923, for well-known reasons, German national economy and mass purchasing power entirely collapsed, the gold value of exported commodities sank to less than half their pre-war value, the real wages of the skilled worker dropped to a quarter, and of the unskilled to two-thirds of the pre-war level. This impoverishment was shared by the farming population of the whole earth, in so far as that population produces food-stuffs for European industrial areas.

The restoration of a stable currency, carried out in Germany in November, 1923, by her own efforts, and the negotiations of the Dawes Committee which led to the London Agreement of August, 1924, began the revival of agricultural prices. The loans which now streamed plentifully into Europe, and especially into Germany, from the United States stimulated industrial production and were, for the greater part, converted into wages and salaries. In this way they increased purchasing power and production to an extraordinary degree. This is the decisive reason for the fact that the prices for wheat and meat also rose in the whole world after the middle of the year 1924 and the price disparity on the international markets decreased. It is true that the bad harvest of the year 1924 was a factor in this changed state of affairs, but the following year brought the highest grain yield ever attained, and yet the prices of wheat on the world market rose higher than in the previous year. But even then the price level was still anything but normal. I beg to emphasize very strongly that the prices could not be looked upon as "normal" in the economic meaning of the term even if agricultural produce had maintained its pre-war value in terms of industrial commodities, but only if a rising tendency in the ratio were more perceptible; for this tendency is the condition on which the intensification of farming depends, which now, as before the war, has become an urgent necessity for economic welfare.

An increasing exchange value of agricultural products by no means necessarily entails a rise in the prices of products of the soil. For the manufacturing industry, by cheapening the production

and consumption goods which it supplies to agriculture, can enable the farmer to increase his output without increasing his costs. This is, indeed, the chief task which national economy allots to the manufacturer.

Since the war, the tendency towards increasing values for agricultural products as compared with manufactures is observable only in respect of fertilizers, this being due to revolutionizing inventions in this branch of industry. In comparison with the agricultural prices in Great Britain and Germany, implements and machines (and at times also concentrated fodder) are once more approximately as cheap as before the war, but not cheaper. In other countries, even in the United States and Canada, the agricultural machines stand at 175 per cent., which is considerably higher than the general price-index figure. And everywhere the farmer has to give for consumption commodities (clothes, shoes, domestic utensils, services) considerably more products than before the war. Thus the standard of living of the agricultural population is reduced and the receipts from its labour lowered.

The price disparity is the decisive reason why in the United States and Canada the prosperity of the farmer is so far behind that of all other categories of the population; for the American farmers will long remain dependent upon exporting considerable surpluses. And according to the prices obtained for this surplus, the price of the whole stock is determined.

European agriculture, however, does not suffer from price conditions alone; its suffering is increased by the very high taxes and interest on debts, and with this we touch on the decisive reasons for the diminution of European prosperity.

What are the causes of the reduced purchasing capacity of the European industrial countries?

1. They are to be found partly in the direct effects of the war. The war reduced the proceeds of the soil in the importing continental countries and decimated their live-stock. But this damage is gradually healing.

2. The reduction of the economic productivity of Eastern Europe caused considerable repercussions in the industrial countries. The transformation of Russia, Roumania and other Eastern countries into a domain of small and smallest holdings has caused a reduction not only of their own grain exports, but of the counter-stream of industrial products towards the East. Germany especially is one of the sufferers in this connection, having formerly been the country which almost everywhere in the East held the foremost place among the importing countries.

3. The splitting up of large parts of Eastern and Central Europe and the isolation policy mutually pursued by European

States in commercial matters have disturbed the conditions for the development of European economic forces. The endeavours of the larger industries to unify and rationalize their organization after the model of the United States meets with obstacles which it is difficult to overcome.

4. Still worse are the effects produced upon European industry by the prohibitive economic policy of the agricultural countries. The refusal on the part of these countries to accept industrial equivalents for agricultural exports has proved detrimental to their own farming population and is one of the principal reasons for Europe's diminished purchasing power.

5. Finally, since the war, Europe has been burdened with a much heavier unproductive expenditure. This expenditure gives a better idea of the true taxation burden than is to be obtained from the taxation statistics, which cannot be satisfactorily compared with one another, as there are no reliable and uniform methods of ascertaining the national income of the various countries. Even in the United States there are complaints of increased taxation, but in that country a proportionately very large percentage of the taxes is appropriated for increasing public comfort, for the building of motor roads, for the improvement of public education, and so forth. Real diminution of the net national income is, however, only brought about by such taxes as are used for unproductive expenditure, namely, (1) military and war expenses, (2) external political debts. A very careful analysis of the budgets by the German Statistical Office shows that, including the costs for repairing the damage done by the war and for war pensions, the defence estimates are heavier than before the war. Even in the case of the disarmed Central Powers the expenses for the defence forces, including the cost for the reparation of war damage, amounts in gold marks to 108 per cent. of the pre-war military charge.

In addition to the increased military and war costs, European countries have to meet expenses arising out of their external political debt. Before the war there was no such thing as a political indebtedness of Europe to other continents.

According to the Funding Agreements and assuming 5 per cent. interest, the capital which thirteen European States now owe to the American Union amounts to 5.9 milliard dollars. Whereas the interest which, before the war, the United States had to pay to Europe was for railway and industrial loans of a productive character, the interest on the European war debt to America is a sheer loss of national income on the part of the debtor State. Thus expenditure is unproductive in an even more refined sense than the military expenses. It reduces the purchasing power of

the debtor countries by its full amount. The average annual sum of 294 million dollars paid to the United States as interest on the European war debts is roughly equivalent to the entire annual value of the United States exports of wheat and wheat-flour or of animal products. As a matter of arithmetic, then, Europe could have spent without these debts double what she has done for her food-stuffs drawn from the United States. The interest on the political debt increases the taxes in European countries by their full amount and reduces the competitive capacity of their enterprises.

Now, as is well known, the Dawes Plan has fixed the standard annual burden to be borne by Germany at 2,500 million gold marks, so that the international debts arising out of the war may be easily settled. This standard payment would more than double Germany's unproductive expenditure as compared with the pre-war figures; it would increase them from 35½ marks a head to 73½ marks a head, or in absolute figures from 2.2 milliard marks before the war to 4.8 milliard marks a year now. This increased burden is to be borne by a nation whose living space and natural resources have been very severely cut down by the war. There are about the same number of people living in Germany now as there were within her old boundaries in 1910 (63.3 as compared with 64.9 in the year 1910), but her territory has been curtailed, without reckoning the lost colonies, in comparison with 1913 by 13 per cent., cultivated land by 15 per cent., iron in the form of ore by 74.5 per cent. Those are losses which bring down the income of the present population far below the pre-war level, although this diminution cannot be expressed in figures.

I shall not go into the question, much discussed both in Germany and in other countries, whether the German nation would be able to provide the standard payments, or whether an effort to do so would result in a collapse akin to that of 1923 which caused a severe crisis over the whole world.

In connection with the Dawes Plan I will only remark that one must take care not to over-estimate the creative power of credit. Densely-populated industrial countries cannot bear the same rate of interest as countries which, like the United States, operate vast and hitherto unworked areas by extensive economic methods. For here the productivity of work done is incomparably higher, as also—in consequence—is the income from capital and the profit on undertakings. In the areas of high economic intensity, the output of labour and the profit on capital are limited by the law of diminishing returns on outlay.

If in Germany, in spite of all progress in the matter of credits since 1924, the farmers have still to pay 7 to 9 per cent. on long-

term well-secured loans, this is a percentage which the margin of profit cannot be made to cover.

The amount of unborrowed capital in Germany is still very small. It is true that the savings which had disappeared in the inflation have started again, but, at the end of February, 1927, the sums invested in savings banks did not total more than 18 per cent. of the entire amount at the end of the year 1913. On the other hand, the debts which had disappeared in the inflation period have reappeared very quickly under the stress of taxation and unfavourable price conditions. Including the revalorized old debts, the interest which has to be found is not less now than before the war. Including the increased charge due to taxation, agriculturists have to find nearly twice as much as in pre-war times; that is, taking into consideration the general devaluation of money, more than one and two-fifths as much as in pre-war times.

What is here said of Germany is true, *mutatis mutandis*, of all European countries and is the principal difference in comparison with the United States. The heavy unproductive expenditure of the State has to be obtained out of the taxes; and the high rates of interest, combined with heavy taxation, prevent the accumulation of new capital. What is true of agriculture is also true of continental industry. The high taxes and loan interest reduce its competitive capacity. Industry has to rationalize its working to the utmost, that is to say, has to apply work-saving methods. In this way more and more workers are thrown out of employment. The high taxes and debt interest in combination with the poorer marketing conditions are the reasons for the enormous unemployment figures which have become a permanent phenomenon of industrial Europe. It would seem to be the fate of this continent to suffer from unemployment, a fate which can only be temporarily averted by inflation and which entails a severe diminution of purchasing capacity, even where real wages are higher than before the war, as in Great Britain, Scandinavia and Switzerland. Germany, however, has both the highest unemployment figure and diminished real wages.

It is comprehensible that industry should seek to improve its position by means of protective tariffs, explaining them by the high taxes, social burdens and debt interest. Agriculturists then demand that the customs duty imposed on manufactured imports should be compensated by a protective tariff on agricultural produce. These demands are justified and logical enough from the point of view of the single undertaking or even of a whole branch of industry. But from the point of view of national economy, and *a fortiori* of world economy as a whole, they cannot

be recognized as a complete and permanently effective cure; for the result can only be to cause a general rise of the domestic price level, thus proving harmful to industrial exports; and, further, they entail increased difficulties in the situation of the workers and a fresh reduction of their purchasing capacity.

A real cure for the evil of world economic depression in general and of the agricultural crisis in particular can only be effected by removing the ultimate causes of this depression.

With regard to Eastern Europe, one may hope that the endeavours of the Governments and populations of those countries will in time succeed in gradually raising the productivity of peasant farming. Promising beginnings have been made. The reduction of the productivity of the soil in Central and Western Europe in consequence of the war is on the point of being overcome by conscientious work. Those are tasks which every nation must undertake and carry out for itself. Many improvements can be made in commercial and credit organization, but all these endeavours, and similarly the endeavours of this Conference to induce the separate nations to lower their protective tariffs, cannot be more than very moderately successful unless the principal wielders of economic power, at their head the United States, take the initiative in thoroughly reforming world economy. They cannot expect the smaller and the weaker nations to take the lead in removing impediments to commerce. It is in their power to raise the standard of living of the European industrial nations, to remove the curse of unemployment and to relieve the distress on their own farms. This assumes that the political debts of the various nations will soon be regulated in a way acceptable to all parties. This is the real solution of the world's economic problems. With the debt regulation should be organically bound up a reduction of unproductive expenditure in Europe and the removal of commercial impediments. A comprehensive plan of this kind would result in tax reduction, in a quickening of capital accumulation, and in the cessation, or at least diminution, of European unemployment; it would revive colonization and produce a general increase of prosperity. The terrible experiences of the war and of post-war years have proved that civilized humanity has a common destiny and that, if single nations be plunged into servitude and poverty, the whole of humanity is involved in suffering. From the recognition of this fact it is to be hoped that that feeling of solidarity will spring up on which President Wilson wished to found a fresh community of nations. Our Conference, however, will have solved its most important task if it succeeds in awakening in the public mind a keen sense of the interdependence of the peoples of the world.

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